

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

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**BABERGH DISTRICT COUNCIL
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EXPLANATORY FOREWORD

1. GENERAL COMMENTARY

The Council's accounts for the year 2005/06 are set out on pages 2 to 81.

They consist of:

- **The Statement of Responsibilities**
- **Statement on the System of Internal Control** – explains the systems and procedures that are in place ensuring the effective exercise of the Council's functions, that these are conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for.
- **The Consolidated Revenue Account** - details income and expenditure on all of the Council's services and how this is financed from Government grants and local taxpayers.
- **The Housing Revenue Account** - a separate statutory account for local authority housing provision.
- **The Collection Fund** - shows the transactions in relation to Non Domestic Rates and Council Tax, and illustrates the way in which these have been distributed to the Council's General Fund and Precepting Authorities.
- **The Consolidated Balance Sheet** - sets out the financial position of the Council on 31 March 2006.
- **The Statement of Total Movement in Reserves** - shows all losses and gains on disposal or revaluation of fixed assets and the surpluses and deficits on capital and revenue reserves.
- **The Cash Flow Statement** - summarises the inflows and outflows of cash arising from revenue and capital expenditure and income.
- **Statement of Accounting Policies**
- **The Auditor's Opinion.**

These accounts are supported by **explanatory notes** to the accounts and a **glossary of terms**.

This report provides a general commentary on the Council's finances for the year and gives an indication of the Council's overall financial position.

2. CONSOLIDATED REVENUE ACCOUNT

- This account incorporates all revenue expenditure and income relating to services provided by the Council, including that relating to Council Housing. It also includes the amounts paid to Town and Parish Councils in respect of Parish precepts to cover expenditure incurred by them on local services.
- By excluding both Council Housing (See Section 3 below) and the Parish/Town Council Precepts, the remaining net expenditure relates to the services that are provided and paid for by Council Tax payers and general Government grant in the Council's General Fund. The statement below shows this net expenditure for the year compared with the Council's budget:

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	Original Budget £m	Revised Budget £m	Actual £m	Variance from Revised Budget £m
Net expenditure	8.961	9.272	8.587	(0.685)
Income from Government grants				
and Council Taxpayers	(8.608)	(8.608)	(8.608)	-
Reduction (and variation) in General Fund reserves	0.353	0.664	(0.021)	(0.685)

- The original budget was revised early in 2006 to reflect anticipated changes in income and expenditure for the year. Actual net expenditure for the year was £0.685m less than this revised budget.
- This arose due to lower net expenditure on service costs during the year, though there is delayed and additional revenue expenditure of £0.439m, which is now due to be spent in 2006//07. Allowing for this, there will be £0.246m more in reserves.

Variations in Net Expenditure between 2004/05 and 2005/06

Net overall operating expenditure was £0.534m higher in 2005/06 than in the previous year. Council Housing net operating expenditure (*which was £1.061m less than the previous year*) is, however, included in this figure. Thus the net operating expenditure for the General Fund is £1.595m higher than in the previous year due to:

	£m
Pay award and inflation	0.331
Interest costs, income, asset management account changes and pension accounting adjustments (net)	0.231
Net service cost increase	0.929
Increase in parish precepts	0.104
Total Increase	1.595

3. COUNCIL HOUSING

- A comparison of actual spending for the year with the original and revised budget for the Housing Revenue Account (HRA) is summarised below:

	Original Budget £m	Revised Budget £m	Actual £m	Variance from Revised Budget £m
Income	(12.112)	(12.074)	(12.013)	0.061
Expenditure – net of Appropriations	12.051	12.609	12.423	(0.186)
Decrease (increase) in reserves	(0.061)	0.535	0.410	(0.125)

- From this it can be seen that less has to be taken from reserves than anticipated when the revised budget was agreed early in 2006.
- However, once budget carry forwards of £0.016m are allowed for, the reserves will be £0.109m more than expected.

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- The main variations in income and expenditure compared to the revised budget are set out below:

	£m
Anticipated deficit for the year	0.535
<u>Add:</u> Reduced rental income due to increased costs on void properties	0.038
<u>Less:</u> Expenditure delayed to 2006/07	(0.016)
Lower supervision and management costs	(0.109)
Reduction in transfer to General Fund re HB costs	(0.030)
Other net variations	(0.008)
Actual deficit for the year	0.410

Variations in Net Expenditure between 2004/05 and 2005/06

The surplus in 2004/05 of £0.077m changed by £0.487m from the previous year to a deficit of £0.410m in 2005/06. The main variations are detailed below:

	£m
Increase in direct revenue financing and capital charges	1.063
Decrease in management, repairs and other costs	(0.115)
Increase in rent and other charges	(0.251)
Increase in HRA Subsidy payable	(0.210)
Total Decrease	0.487

4. CAPITAL INVESTMENT

- Capital investment in 2005/06 was substantial for a council of Babergh's size. During the year £6.3m was spent on capital projects, (£4.7m in 2004/05) compared to a revised forecast for the year of £7.4m. A large part of the balance of £1.1m relates to schemes that should be completed in the year 2006/07.
- This money was spent on providing the following schemes or services:

	£m
Council Housing improvements, major repairs and renewals	3.7
New IT and other systems	1.0
Renovation grants – private housing	0.5
Other capital schemes	1.1
Total	6.3

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- This expenditure was financed from the following sources:

	2005/06 £m	2004/05 £m
Revenue Financing	1.2	0.1
Major Repairs Reserve	1.9	2.1
Capital Receipts	1.2	2.0
External Contributions/grants	1.4	1.4
Supported Borrowing	0.6	-
Capital Accruals	-	(0.9)
Total	6.3	4.7

- Capital receipts totaling £2.0m were received in 2005/06, of which £0.7m was paid over to the government (pooled) and £1.2m was used to fund capital expenditure. £1.1m was brought forward from 2004/05, leaving a balance of £1.2m at 31 March 2006. This balance is needed to finance schemes that have been delayed and that will be undertaken in 2006/07.
- Contributions and capital grants of £1.4m, mainly from the Government and Suffolk County Council were used to finance capital expenditure. The Major Repairs Reserve relates to expenditure on Council Housing and the Government makes an annual contribution to cover this. In 2005/06, £2.1m was received and £1.9m of this was used to finance capital work, the balance of £0.2m being carried forward to fund expenditure in 2006/07.
- The large increase in Revenue Financing related to Council Housing. The Council has been debt-free since 2002/03, but has recommenced borrowing, again on Council Housing, as a result of reducing capital receipts. The Government meets the annual revenue cost through HRA subsidy.
- Changes in the capital financing rules in 2004/05 resulted in the capital accruals adjustment shown for that year, but there are no such adjustments in 2005/06 or future years.

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5. RESERVES, PROVISIONS AND REVENUE BALANCES

- The level of general revenue reserves and balances, including those related to Council Housing, changed during the year as set out in the table below. This table also incorporates other reserves and balances as indicated:

	31 March 2006 £m	31 March 2005 £m
General Fund		
General Reserves/Balances	3.393	3.372
Collection Fund deficit (Babergh element)	(0.095)	(0.121)
Deferred Credits	0.208	0.246
	3.506	3.497
Housing Revenue Account	1.159	1.569
Total	4.665	5.066

- More details in respect of the Collection Fund, Deferred Credits and Provisions are to be found in the Statement of Accounts – these sums will be credited or debited to the General Fund accounts over a period of years as appropriate.
- In addition to the above, there are two further significant reserves in the balance sheet, which are the Fixed Asset Restatement Account and the Capital Financing Account. These are required under Government rules.
- The Fixed Asset Restatement Account stands at £175.0m and reflects the difference between the historic or book value of the Council's assets and its current value. The Capital Financing Account of £39.3m reflects the net effect of the amounts that the Council is required to set aside under Government legislation for credit liabilities/debt redemption and the amount of money spent from revenue sources and capital receipts on actual capital expenditure over the years. These amounts are not available to fund the Council's future capital or revenue expenditure.

6. REVENUE COLLECTION

- The Council is responsible for collecting Council Tax (not only for its own services, but also for Suffolk County Council, Suffolk Police Authority and Town and Parish Councils in the district) and Business Rates. It also collects Council House rents.
- The total amounts collected during the year as a proportion of the amount collectable for the year, and the comparison with the previous year are shown below:

	Total Receipts £m	Proportion of amount due for year collected	
	2005/06	2005/06	2004/05
Council Tax	35.700	98.8%	98.7%
Business Rates	15.500	99.1%	98.9%
Council House Rents (net of housing benefits)	4.658	98.8%	98.9%

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- Arrears at the year-end compared to the previous year are shown below and show an improvement:

	31 March 2006 £m	31 March 2005 £m
Council Tax	0.703	0.896
Business Rates	0.229	0.303
Council House Rents	0.289	0.290
Total	1.221	1.489

- Provisions for bad and doubtful debts have been made in respect of the above arrears at the end of the year as follows:

	31 March 2006 £m	31 March 2005 £m
Council Tax	0.201	0.256
Business Rates	0.115	0.151
Council House Rents	0.096	0.109
Total	0.412	0.516

7. OTHER MATTERS

Pension Fund

- There is a substantial deficit on the Council's Pension Fund, administered by Suffolk County Council. The most recent triennial valuation and actuarial review was on the 31 March 2004, which estimated a long-term deficit on the Fund of £10.5m. and costs in 2005/06 are based on this review. Contribution rates reduced from 31.4% of employees' pensionable pay in 2004/05 to 29.1% in 2005/06. Of this contribution rate, 13.4% applied to future service costs and the remainder was paid by way of a lump sum contribution of just over £1m
- For accounting purposes, it should be noted that the estimated deficit (under FRS17) stood at nearly £14.6m as at 31 March 2006 and the reasons for this, as assessed by the actuary, are given on pages 51 and 52.

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Future Challenges

- Looking to the future, there are many known and potential challenges facing the Council, which include:
 - Customer Access and Service Transformation – Customer access improvements and streamlining processes to achieve efficiency savings.
 - The Euro - The Council's main I.T. systems are Euro compliant and the Council will prepare and implement plans to be ready for any future entry by the UK into the European Monetary Union (EMU) as and when required. Other resource commitments have been identified, although the full costs to be incurred will be more accurately known once firm plans are in place.
 - Achieving efficiencies to meet the Government's 2½% annual efficiency targets between 2005/06 and 2007/08.
 - Ensuring the Council continues to improve to achieve the best possible CPA ratings in the future. The Council was judged to be a 'good' authority under the Government's assessment in 2004.

8. FURTHER INFORMATION

- A Statement of Responsibilities for the Statement of Accounts is included on page 9, which confirms, amongst other matters, that the Statement of Accounts for the year has been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. The accounts for the year have been closed promptly and within laid down Government deadlines. They are published subject to audit, and the Auditor's opinion on the accounts should be received by 30 September 2006.
- Also, a Statement on Internal Control operated by the Council is shown on pages 10 to 16. The Statement covers a review of the Council's systems of internal control including corporate governance and risk management.
- In addition, interested members of the public have a statutory right to inspect the accounts before the audit of the accounts for the year is completed. An advert will be placed in the local press indicating when the accounts are available for inspection.

Further information about the Council's finances and the Statement of Accounts is available from:

Barry Hunter, Head of Finance
Telephone: 01473 825819
Email: barry.hunter@babergh.gov.uk

The address to contact the above is Babergh District Council, Corks Lane, Hadleigh, Ipswich IP7 6SJ.

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STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer (from 1st April 2006) is the Head of Finance, Barry Hunter. For the year 2005/06 it was Geoff Kistner, one of the Council's Corporate Directors;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- to approve the accounts.

The unaudited Statement of Accounts was presented to and approved by the Council on 20 June 2006.



Rex Thake, Chairman of the Council

Dated: 20 June 2006.....

The Responsibilities of the Head of Finance

The Head of Finance is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the 'Code of Practice').

In preparing the Statement of Accounts for the year ended 31 March 2006, the Head of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code of Practice.

The Head of Finance has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts presents fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2006.



Barry Hunter
Head of Finance

Dated: 20 June 2006.....

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STATEMENT ON INTERNAL CONTROL

1. Introduction

1.1 The Accounts and Audit Regulations 2003 require the Council to conduct a review at least once a year of the effectiveness of its system of internal control and publish a statement on internal control each year with the Council's financial statements.

2. Scope of Responsibility

2.1 The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. The Council also has a duty under the Local Government Act 1999 to make arrangements for continuous improvements in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

2.2 In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

3. The Purpose of the System of Internal Control

3.1 Corporate Governance is the system by which local authorities direct and control their functions and relate to their communities. The framework for corporate governance recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society for Local Authority Chief Executives and Senior Managers (SOLACE) identifies three underlying principles of good governance, namely:

- Openness and inclusivity
- Integrity
- Accountability

3.2 The principles of corporate governance should be embedded in the culture of each local authority. Furthermore each local authority has to be able to demonstrate that they are complying with these principles. To achieve this, the framework document recommends that all local authorities should develop a code of corporate governance, comprising the following elements:

- Community Focus
- Service Delivery Arrangements
- Structures and Processes
- Risk Management and Internal Control
- Standards of Conduct

3.3 The Council formally adopted a local code of corporate governance, in 2002 to ensure that good working practices are supported and followed. This forms part of the overall process within the Council for monitoring and reporting on the adequacy and effectiveness of the corporate governance arrangements, particularly those in respect of risk management and internal control.

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- 3.4 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to achieving the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and their impact, and to manage them efficiently, effectively and economically.
- 3.5 This statement covers the systems of internal control that have been in place at the Council for the year ended 31st March 2006 and up to the date of approval of the annual accounts.

4. The Internal Control Environment

- 4.1 The requirement to have a sound system of internal control covers all of the Council's activities. The internal control environment within the Council consists of a number of different elements, which taken together contribute to the overall corporate governance framework. The key elements of the Council's internal control environment are as follows:
- A constitution, which sets out how the Council operates, how decisions are made, and the procedures, which are followed to ensure that these are efficient, transparent and accountable to local people.
 - An overall policy framework and budget agreed by full Council. Within that framework decision-making is delegated to the Strategy Committee or to officers under delegated authority. There are two Overview and Scrutiny Committees, which support and scrutinise the work of the Strategy Committee and the Council as a whole.
 - Reviews by external auditors and inspectors, external agencies, Internal Audit, and the Corporate Support section, to seek improvements in ensuring the economic, effective and efficient use of resources and in the way in which functions are exercised.
 - Services are delivered by trained and experience staff. All posts have a detailed job profile and targets that are linked to the Corporate Plan. Training needs are identified through the appraisal system and some are addressed through a corporate training plan.
 - There is a designated Monitoring Officer, who ensures lawfulness and fairness of decision-making. After consulting with the Head of Paid Service and Chief Finance Officer, the Monitoring Officer will report to the full Council if she considers that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission has given rise to maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.
 - The financial management of the Council is conducted in accordance with the financial regulations and procedures set out in Part 4 of the Constitution. The Council has designated The Head of Finance as Chief Finance Officer in accordance with section 151 of the Local Government Act 1972.
 - The Council maintains an Internal Audit Section, which operates in accordance with the standards set out in the 'Code of Practice for Internal Audit in Local Government in the UK'.

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- The Council has a performance management framework. The system is driven by the Corporate Plan, which is approved by the Full Council. The Plan focuses attention on corporate priorities. It is cascaded through departmental service plans and individual staff targets, achievement against those targets is monitored by officers. The Overview and Scrutiny Committees monitor and scrutinise progress against indicators and targets within the corporate plan and consider and recommend corrective action where necessary on a quarterly basis.
- The Risk Management Strategy explains the Council's attitude to risk and documents the responsibilities for managing risk throughout the Council.
- Corporate and divisional business continuity plans are in place, but haven't been subjected to a testing programme.
- A wide variety of systems, policies and procedures are in place.

5. Review of Effectiveness

- 5.1 The review of the effectiveness of internal control is informed by the work of internal auditors and senior managers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by external auditors and other review agencies and inspectorates.
- 5.2 Internal Audit is responsible for monitoring the quality and effectiveness of the systems of internal control. A report of each audit undertaken is submitted to the relevant head of service, service manager and external audit. A management summary and action plan is submitted to the Chief Finance Officer and relevant Corporate Director. Reports include recommendations for improvements, the implementation of which are followed up on a regular basis. An annual report on the work of Internal Audit is considered by the Overview and Scrutiny (Stewardship) Committee.
- 5.3 From the work undertaken in 2005/06, Internal Audit has provided satisfactory assurance that the internal controls are fundamentally sound and accord with proper practice.
- 5.4 The work of the Internal Audit section is subject to regular inspection by the Council's external auditors who place reliance on the work carried out by the section. Internal Audit act upon any recommendations made by the external auditors for improvements to Internal Audits processes or procedures.
- 5.5 The External Auditors' Scored Judgement undertaken during 2004 rated the Council's overall performance as 'Good', with a score of 17 out of 20 in respect of the Appointed Auditor Assessment. That assessment covered the following areas of Council activity:
- Financial standing
 - System of internal financial control
 - Standards of financial conduct and the prevention and detection of fraud
 - Financial statements
 - Legality of significant financial transactions

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5.6 The Use of resources Assessment replaced the above and was carried out during 2005. The approach has been significantly revised and is now a more strategic assessment than in 2004.

The scoring is as follows:

1 = below minimum requirements – inadequate performance

2 = at only minimum requirements – adequate performance

3 = consistently above minimum requirements – performing well

4 = well above minimum requirements – performing strongly.

The Council was assessed to be performing at level 3. The assessment covered the following areas:

- Financial reporting 3
- Financial management 3
- Financial standing 3
- Internal control 2
- Value for money 3



5.7 The Benefit Fraud Inspectorate (BFI) assessment in 2004, found that the Benefits service was providing a Fair towards Good performance and that the proven capacity to improve was good.

5.8 The Council has two Overview and Scrutiny Committees. They monitor the decisions of the Strategy Committee and can ‘call-in’ a decision, which has been made but not yet implemented, to enable them to consider whether the decision is appropriate. There were no ‘call-ins’ during the year.

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6. Significant Internal Control Issues

6.1 The review of the effectiveness of the system of internal control has identified some internal control issues, which are shown below along with the action plans that are in place to address them and ensure continuous improvement of the system. Details of the significant control issues identified in the 2004/05 statement and actions taken to resolve them is included at Appendix A.

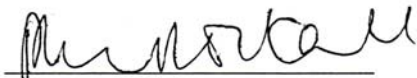
Issue	Action Proposed
Continue to strengthen the Council's Corporate Governance arrangements by providing training on Corporate Governance to all key officers and Members.	<ul style="list-style-type: none"> • Continue to provide training on specific issues through Member and officer workshops. • Update the Local Code in 2006/07 based on an Internal Audit review.
Continue to improve the performance management system.	Further SMART Action plans required for bottom quartile performance indicators featuring in the Council's corporate priorities
Continue to fully embed the risk management process.	<p>To fully embed risk management the Council needs to:</p> <ul style="list-style-type: none"> • Continue to provide staff training. • Carry out operational risk assessments. • Ensure that risk is considered as a part of the decision making process and that reports to support strategic policy decisions and project initiation documents include a risk assessment. • Introduce Risk Based Internal Auditing.
Business continuity plans to be subject to regular review and testing.	<p>Business/service continuity plans do exist but need to be reviewed/updated and a testing plan put in place.</p> <p>Will be dealt with by the Corporate Support Manager in conjunction with the Countywide joint emergency planning unit, which was operational from the 1st April 2006.</p>

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7. Conclusion

- 7.1 A sound system of internal control has been in place at Babergh District Council throughout the year ended 31st March 2006 and work to strengthen this is ongoing.



Patricia Rockall
Chief Executive

Date: 7/6/06



Nick Ridley
Chair of Strategy Committee

Date: 7/6/06

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STATEMENT ON INTERNAL CONTROL

APPENDIX A

Update on Significant Internal Control Issues 2004/05

Issue	Proposed Action	Action Completed
Strengthen the Council's Corporate Governance arrangements by providing training on Corporate Governance to all key officers and Members and making the staff, public and other stakeholders aware of Corporate Governance.	Provide training through Member and officer workshops and use existing communication channels for staff, public and others.	Code of Corporate Governance placed on the Council's Website and Intranet. Council's contractors contacted and made aware of the code and provided with a link to the relevant part of the Website.
Continue to improve the performance management system.	Implement the actions detailed in the CPA Improvement Plan. Participate in the implementation of a Performance Management process for the countywide Local Area Agreement, which will bring many funding streams together.	Significant improvements to the Council's Performance Management Framework achieved. Targets, set to ensure continuous improvement have been achieved and quality has improved. The 2005/06 CPA Improvement Plan has been implemented. Good participation in the LAA Performance Management process.
Continue to fully embed the risk management process.	A more formal system of review and monitoring will be introduced, together with a mechanism for involving Members in the identification of high-level risks and the action to be taken. The need for service heads to be actively involved in the process and for risk management to be considered in the annual business planning process will be reinforced within a revised risk management strategy.	Strategic risk assessment exercise carried out involving Management Team, Heads of Service and Members. Revised Risk Management Strategy setting out roles and responsibilities has been approved. Overview & Scrutiny (Stewardship) Committee monitor strategic risks on a quarterly basis.
Business continuity plans to be subject to regular review and testing.	Set up a testing programme for the business continuity plans. Review these plans in 2006/07.	No progress made.

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CONSOLIDATED REVENUE ACCOUNT

This account shows the gross expenditure, income and net expenditure in 2005/06 on all services of the Council and any amounts transferred to and from reserves. This net expenditure is financed by general reserves, government grants and local taxpayers. The notes to this statement provide further explanation of these figures and changes between 2004/05 and 2005/06.

	Note Ref	2005/06			2004/05
		Gross Expenditure £000	Income £000	Net Expenditure £000	Net Expenditure £000
Environmental Services		4,399	(1,386)	3,013	2,949
Cultural Services		2,225	(161)	2,064	1,630
Planning Services	4,21	2,833	(1,065)	1,768	1,475
Transport Services		468	(45)	423	393
Housing Services					
General Fund Housing	9	13,260	(11,815)	1,445	1,072
Housing Revenue Account	3	18,298	(11,940)	6,358	8,447
Central Services to the Public	20	5,491	(4,664)	827	880
Corporate and Democratic Core	5	2,441	(312)	2,129	2,101
Non-Distributed Costs	5	3	(28)	(25)	20
Net Cost of Services		49,418	(31,416)	18,002	18,967
Precepts of Town/ Parish Councils	16			1,590	1,486
Asset Management Account	13			(7,956)	(8,948)
Contribution to Housing Pooled Capital Receipts				722	349
Losses on the early settlement of borrowing	24			285	285
Pensions interest cost and expected return on pensions assets	10			324	67
Interest and Investment Income	12			(476)	(396)
Net Operating Expenditure				12,491	11,810
Council Housing transferred to/(from) HRA balances	3			(410)	77
HRA capital expenditure financed from revenue	14			1,153	110
Adjustment for provisions for loan repayment	15			(1,857)	(1,314)
Transfer to/from major repairs reserve				(879)	(1,335)
Movement on pensions reserve	10			402	835
Transfer from usable capital receipts				(722)	(349)
Amounts to be financed from Government Grants and Local Taxpayers				10,178	9,834
General Government Grant				(2,364)	(2,211)
Non Domestic Rate Redistribution				(2,438)	(2,306)
Council Taxpayers (Demand on the Collection Fund)	16			(5,423)	(5,176)
Transfers (from)/to the Collection Fund in respect of surpluses/deficits	17			26	12
Net General Fund (surplus)/deficit				(21)	153
General Reserve					
Balance at 1 April 2005				3,372	3,525
Balance at 31 March 2006				3,393	3,372

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NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

1. Classification of Expenditure

The analysis of service costs by expenditure heading has been stated in accordance with the CIPFA's Best Value Accounting Code of Practice.

2. Capital Accounting System

Net expenditure on each service includes capital charges for the fixed assets used in the provision of that service. This charge covers the annual provision for depreciation where appropriate, plus a capital financing charge determined by applying a specified notional rate of interest (3.5% for assets carried at current value and 4.95% for assets carried at historical cost), based on the net amount at which the asset is included in the balance sheet. In order that there should be no effect on the Council Tax Payer these notional charges are credited to the Asset Management Account and offset by the true capital financing costs (see note 13, page 22). Capital charges are also included in the Housing Revenue Account and are based on rules laid down by the Government (see note 7 page 30).

3. Inclusion of Council Housing Expenditure

The net cost of services relating to Council Housing and entries relating to corporate expenditure and income, appropriations, and the surplus or deficit for the year are required by the SORP to be included in the Consolidated Revenue Account. A full analysis of these figures is included in the Housing Revenue Account shown on page 28. The net expenditure or surplus is transferred to/from the Housing Revenue Account so there is no effect on the totals to be financed from government grant and local taxpayers. Charges between the General Fund and the Housing Revenue Account are consolidated within this statement. (See also note 8 to the Housing Revenue Account on page 31).

4. Economic Development and Industrial Estates

Included within the net expenditure for Economic Development and Industrial Estates is the net cost resulting from the operation of Council owned industrial estates and starter units. The detailed figures are as follows:

	2005/06 £000	2004/05 £000
Income		
Rents and other income	70	66
Expenditure		
Running Costs	(38)	(39)
Capital Charges	(38)	(38)
Net Surplus / (Loss)	(6)	(11)

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

5. Corporate and Democratic Core and Non-Distributed Costs

The Council incurs corporate and democratic costs specifically due to it being an elected multi-purpose authority. These costs are not related to the direct cost of the provision of services, and therefore are shown in total in the Consolidated Revenue Account. Non-distributed costs relate mainly to contributions to meet the pension fund deficit. In 2005/06 £0.502m (£0.522m in 2004/05) relating to these costs were apportioned to the Housing Revenue Account from the General Fund.

6. Section 137, Local Government Act 1972

Section 137 of the Local Government Act 1972, as amended, gives powers to authorities to make contributions to certain charitable funds, not-for-profit bodies providing a public service in the UK and mayoral appeals. Babergh has made a small number of grants (which equated to £0.021m in both 2005/06 and in 2004/05) that fall within the remit of the amended power.

7. Publicity Memorandum Account

Section 5 of the Local Government Act 1986 requires Local Authorities to identify expenditure on publicity.

	2005/06 £000	2004/05 £000
Recruitment advertising	48	62
Other advertising	38	26
Tourism	252	248
Other publicity	157	152
Total	495	488

8. Agency Services

The Council has a service agreement with Suffolk County Council to carry out grass cutting on District Highways. The total reimbursed during 2005/06 was £0.023m (£0.023m in 2004/05). These amounts are included in the Consolidated Revenue Account.

9. Housing Benefit

Assistance with rents and service charges is available under the Housing Benefits Scheme for those on low incomes. Approximately 59% of the Council's tenants received some help in 2005/06 (61% in 2004/05). Housing Benefit is charged to the General Fund, where the cost is largely met by Government subsidy.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

10. Pension Costs

As part of the terms and conditions of employment of its employees, the Council offers a pension scheme. Although the pension benefits will not actually be payable until employees retire, the authority has a commitment to disclose the payments that will be needed at the time that future entitlements are earned.

The Council pays contributions to the Suffolk County Council Pension Fund, which provides its members with defined benefits relating to pay and service. The contributions are based on rates determined by the Fund's professionally qualified actuaries based on triennial valuations of the Fund, the most recent of which was 31 March 2004.

In 2005/06 the authority paid an employer's contribution of £1.874m (2004/05 £1.930m) based on 29.1% (2004/05 31.4%) of pensionable employees' reckonable pay. Included in this payment was an element relating to the Pension Fund deficit of £1.009m, (2004/05 £1.039m) with 13.4% (2004/05 14.5%) relating to future service costs.

We recognise the cost of retirement benefits in Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on cash payable in the year, so the real cost of retirement benefits is reversed out of the Consolidated Revenue Account (CRA) after Net Operating Expenditure. The following transactions have been made in the CRA during the year:

	2005/06 £000	2004/05 Restated £000
Net Cost of Services:		
- current service costs	282	148
- past service costs	(1,009)	(1,050)
	(727)	(902)
Net Operating Expenditure:		
- interest	2,435	1,889
- expected return on assets in the scheme	(2,111)	(1,822)
	324	67
Movement on Pensions Reserve:		
- reverse out FRS 17 composite entries	(1,471)	(1,122)
- employers' contributions payable to the scheme	1,874	1,957
	403	835
Total cost of FRS 17 adjustments to Council Tax Payers	0	0

Note 26 to the Consolidated Balance Sheet on page 51 contains details of the assumptions made by the actuary in estimating the figures included in this note. Note 5 to the Statement of Total Movements in Reserves details the costs that have arisen through the year where estimates made in preparing figures for previous years have had to be revised (e.g. the expected return on investments).

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

Further information can be found in Suffolk County Council's Pension Annual Report, which is available upon request from: Director of Resource Management, Endeavour House, Russell Road, Ipswich, IP1 2BX.

11. Leases

The Council's policy has been to acquire certain equipment and vehicles through operating leases. There were no new lease agreements during 2005/06. The amount paid under operating lease arrangements in 2005/06 was £0.075m (£0.077m in 2004/05). The amounts charged to revenue may vary from the actual payments depending when in the year the lease commences. The impact of these differences is set out below, with the figures analysed between general fund and housing revenue account:

Operating leases	2005/06 £000		2004/05 £000	
	General Fund	HRA	General Fund	HRA
Paid in year	53	22	55	22
Charged to revenue	57	23	93	22

The total amount outstanding on operating leases stands at £0.131m (2004/05 £0.206m). The council is committed to making payments of £0.022m under these leases in 2006/07, comprising the following elements:

	Total	General Fund	HRA
	£000	£000	£000
Leases expiring between 2007/08 and 2010/11	4		4
Leases expiring after 2010/11	18	18	

See note 28 to the Consolidated Balance sheet on page 53 for outstanding obligations and financing charge for finance leases.

12. Interest and Investment Income

This relates to the interest earned on the Council's cash balances, which are invested in accordance with the Council's Treasury Management policy.

Investment income has increased from £0.396m to £0.476m mostly due to the average level of surplus funds available to invest increasing from £8.6m to £10.4m.

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

13. Asset Management Revenue Account

This account eliminates the notional amounts charged to service accounts for the use of assets and replaces this with the actual capital financing costs, and incorporates charges for both the Housing Revenue Account and General Fund. The amount credited to revenue in 2005/06 in relation to General Fund services was as follows compared with 2004/05.

	2005/06 £000	2004/05 £000
Capital charges to services for the use of fixed assets	(1,274)	(1,201)
External Interest payable	7	-
Finance leases - interest	5	5
Discount arising from debt rescheduling	(38)	(38)
Release of Government Grants/Contributions	(368)	(322)
Depreciation – General Fund	598	538
General Fund credit to Revenue Account	(1,070)	(1,018)
HRA credit to Revenue Account	(6,886)	7,930
Total credit to Consolidated Revenue Account	(7,956)	(8,948)

The balance on this account cannot be regarded as indicative of good or bad performance in relation to property management.

14. Revenue Financing of Capital Schemes

Contributions to the cost of capital schemes undertaken during the year are made from the Revenue Account. In 2005/06 a total of £1.153m was financed in this way (2004/05 £0.110m) in respect of Council Housing Schemes.

15. Loan Repayment Provision

Under legislation, the Council must set aside a minimum revenue provision towards the repayment of external loans. For 2005/06 the statutory amount set aside was nil, as in 2004/05, based on Government rules applying to debt-free authorities and the capital financing system generally.

An adjustment for the difference between the minimum revenue provision and the amounts charged to the Asset Management account for depreciation and the writing down of deferred charges has to be made to ensure there is no impact on Council Taxpayers. The calculation of the amounts involved and the credit to the Revenue Account is shown below:

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

	2005/06 £000	2004/05 £000
General Fund		
Minimum Revenue Provision:	-	-
Adjustment for charges to Asset Management Account:		
Depreciation – General Fund	(598)	(538)
Deferred Charges	(1,617)	(995)
Appropriation re: impairment	-	-
Appropriation re: Govt. Grants/Contributions	368	322
Credit to Revenue Account	(1,847)	(1,211)
HRA		
Appropriation re: impairment	(18)	(109)
Appropriation re: Govt. Grants/Contributions	8	6
HRA Sub-total	(10)	(103)
Total	(1,857)	(1,314)

16. Demand on the Collection Fund (Council Tax)

The total demand from Council Taxpayers includes the amount required by the Town/Parish Councils. An analysis is shown below:

	2005/06 £000	2004/05 £000
Babergh District Council	3,833	3,690
Town/Parish Councils	1,590	1,486
Total Demand	5,423	5,176

17. Collection Fund Transfer

Under Collection Fund legislation any surplus/deficit on the Collection Fund balance relating to Council Tax is shared between Suffolk County Council, Suffolk Policy Authority and Babergh District Council in proportion to the precept/demand on the Fund for the year.

The amount of the transfer in the year is based on an estimate made on the 15 January preceding the start of the year. Any difference between this and the actual amount of surplus/deficit will be transferred in subsequent years.

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

18. Council Staffing - Remuneration

The Council employs a considerable variety of staff with different skills and expertise. An analysis of the numbers of full and part-time staff employed as at 31 March 2006 in remuneration bands above £50,000 per year is set out in the table below.

Remuneration includes salary and other benefits as defined in the Accounts and Audit Regulations, which includes basic pay, overtime and bonus payments as well as health cover and car benefits where appropriate, but excludes employer's contributions to pension costs.

Remuneration £	Full Time	Part Time	Full Time	Part Time
	2005/06		2004/05	
100,000 – 109,000	1	-	1	-
90,000 – 99,999	-	-	-	-
80,000 - 89,999	-	-	-	-
70,000 - 79,999	2	-	2	-
60,000 - 69,999	4	-	-	-
50,000 - 59,999	5	-	11	-
Total	12	-	14	-

19. Related Party Transactions

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. housing benefits).

Members of the Council have direct control over the Council's financial and operating policies. There were no transactions that were controlled or influenced by Members during the year.

There were no transactions with Officers that were under their control or influence.

During the year transactions with related parties were as follows:

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

	Receipts £000	Payments £000	Receipts £000	Payments £000
	2005/06		2004/05	
Central Government				
• Revenue Grants				
- Specific and Special Grants	16,177	-	15,498	-
- Redistributed NNDR	2,438	-	2,306	-
- Revenue Support Grant	2,364	-	2,211	-
• Capital Grants				
- Government	806	-	1,056	-
Precepts				
• Suffolk County Council	-	30,420	-	29,589
• Suffolk Police Authority	-	4,012	-	3,831
• Parish Council Precepts	-	1,590	-	1,486
Chief Executive, Corporate Directors and Heads of Service				
- Car loans made available under the Council's scheme	1	-	6	3
Suffolk County Council Pension Fund				
- Payment of employer's pension contributions in respect of employees	-	1,873	-	1,957
Hadleigh Swimming Pool				
- Sole Trustee, revenue and capital transactions	-	67	-	44
Grants to Parish Councils, Community Councils and Village Halls	-	136	-	237
Other Grants to Voluntary Organisations	-	171	-	138

Outstanding balances at the year-end were as follows:

	2005/06	2004/05
	£000	£000
Central Government		
• Revenue Grants		
- Specific and Special Grants	(67)	(23)
Chief Executive, Corporate Directors and Heads of Service		
- Car loans made available under the Council's scheme	1	2

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

20. Trading Accounts

The Council has trading operations covering Council Tax Collection. Details of expenditure and income in relation to this activity is shown below:

Trading Activity	Income £000	Expenditure £000	Surplus/ (Deficit) £000	Surplus/ (Deficit) 2004/05 £000
Council Tax Collection	358	338	20	25

21. Building Control Account

The Building (Local Authorities Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function. Babergh sets charges for work carried out with the aim of covering all costs incurred. However, certain activities carried out by the Building Control section cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control section, divided between the fee-earning and non-fee earning activities:

	Non-fee earning	Fee earning	TOTAL
	2005/06 £000	2005/06 £000	2005/06 £000
Expenditure:			
Central and support charges	(88)	(361)	(449)
Income:			
Building regulation charges		351	351
Other		7	7
TOTAL INCOME		358	358
Surplus/(deficit) for the year	(88)	(3)	(91)
	2004/05 £000	2004/05 £000	2004/05 £000
Expenditure	(101)	(327)	(428)
Income	-	374	374
Surplus/(deficit) for the year	(101)	47	(54)

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

22. Local Authorities (Goods and Services) Act 1970

The council is empowered by the above Act to provide goods and services to other public bodies. During the year the council provided services for Housing Associations and undertook project work that was of benefit to other public bodies as well as to Babergh.

	2005/06		2004/05	
	Income £000	Expenditure £000	Income £000	Expenditure £000
Housing Associations	-	18	-	24
Other public bodies	(15)	15	(15)	15
Total	(15)	33	(15)	39

23. Members' Allowances

The total amount of Members' allowances paid during 2005/06 was £0.183m (£0.178m in 2004/05).

24. Gains or Losses on the Early Settlement of Borrowing

Premiums for the premature repayment of external borrowing are debited to the HRA over a period of ten years. An amount of £0.285m in 2005/06 (£0.285m in 2004/05) relating to this amortisation charge is shown in the Consolidated Revenue Account. Because these amounts are paid initially from the General Fund there is a loss of interest to the General Fund and this is charged to the HRA and credited to the General Fund over the ten years. The charge in 2005/06 was £0.093m (£0.106m in 2004/05).

25. Audit and Inspection Costs

In 2005/06 Babergh District Council incurred the following fees relating to external audit and inspection:

	2005/06	2004/05
	£000	£000
• Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	80	69
• Fees payable to the Audit Commission in respect of statutory inspection	4	10
• Fees payable to the Audit Commission for the certification of grant claims and returns	51	57
• Fees payable in respect of other services provided by the appointed auditor.	-	1

The fees for other services in 2004/05 are in respect of the National Fraud Initiative.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06

HOUSING REVENUE ACCOUNT

The Housing Revenue Account shows the major elements of Council housing revenue expenditure - maintenance, administration, housing benefit - and capital financing costs, and how these are met by rents, subsidy and other income. In 2005/06 the Government introduced a significant change in relation to Housing Benefit and subsidy. There is a statutory requirement to keep this account separate from those of the Council's other activities.

	Note Ref	2005/06 £000	2004/05 £000
INCOME			
Dwelling rents	4	10,674	10,384
Non-dwelling rents		246	220
Charges for services and facilities	5	957	1,034
Contributions towards expenditure	8	131	118
Other income		5	6
		12,013	11,762
EXPENDITURE			
Repairs and maintenance		1,907	1,890
Supervision and management	2		
- General	2	1,500	1,593
- Special		1,455	1,479
Rents, rates, taxes and other charges	10	62	61
Negative Subsidy payable to Secretary of State	15	3,276	3,439
Sums directed by the Secretary of State –			
Transfers to General Fund	20	182	229
Provision for bad and doubtful debts	6	(4)	12
Cost of capital charge	16	7,075	8,113
Depreciation and impairment of fixed assets	14	3,050	3,534
Debt management costs		30	32
		18,533	20,382
Net Cost of Services		6,520	8,620
Net HRA income or expenditure on the Asset Management Revenue account	7	(6,886)	(7,930)
Interest on loan premium	17	93	106
Amortised premiums and discounts	17	285	285
Investment income	3	(65)	(73)
Net Operating Expenditure		(53)	1,008
Appropriations:			
Revenue contribution to capital expenditure	9	1,153	110
Contribution to minimum repayment provision	19	(11)	(103)
Transfer to/from Major Repairs Reserve	12	(879)	(1,335)
Movement on pensions reserve	18	200	243
Total: Deficit/(Surplus) for the year		410	(77)
Housing Revenue Account Balance: at 1 April 2005		1,569	1,492
Housing Revenue Account Balance: at 31 March 2006		1,159	1,569

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Housing Stock

The Council was responsible for managing an average of 3,646 dwellings during 2005/06. The stock was made up as follows as at 31 March 2006:

	No. of properties
Houses and bungalows	2,915
Flats	670
Other	44
Total Stock at 31 March 2006	3,629

The change in the stock can be summarised as follows:

	2005/06	2004/05
Stock at 1 April	3,662	3,707
Less : sales (RTB)	(24)	(31)
Less: sales (non RTB)	(4)	(14)
Less: transfers re system built properties	(5)	
Stock at 31 March	3,629	3,662

The Council has part ownership (50%) of 4 houses, acquired under the Do-It-Yourself Shared Ownership (DIYSO) Scheme, included in the above figures.

2. Supervision and Management

This is divided into two areas, general and specialised support services. General relates to the general management of the Council's housing stock and includes the cost of policy and management, ensuring the welfare of tenants, tenancy applications and selection, and rent collection and accounting. Special services relates to services provided for specific dwellings or residents and includes items such as central heating, caretaking and cleaning, wardens services and estate maintenance.

3. Investment Income

This relates to interest credited to the Housing Revenue Account in respect of the working balance of the fund. (The interest rate applicable in 2005/06 was 4.61% compared with 4.63% in 2004/05.)

4. Gross Rent Income

During the year 2.1% of dwellings were vacant (1.5% in 2004/05). The actual average rent per week in 2005/06 was £57.74 (52 week basis), an increase of £2.40 (4.3%) over the previous year. The amount of rent/service charges due to be collected from tenants (net of rebates granted) was £5.678m (£5.686m in 2004/05).

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE HOUSING REVENUE ACCOUNT

5. Service and Facility Charges

These charges relate particularly to heating and scheme management services provided to residents in sheltered accommodation and homeless units, including charges and grants received towards the provision of support services to tenants. They also include the charges for community alarm systems in Council Houses.

6. Rent Arrears

At the end of the year rent arrears, as a proportion of gross rent income, stood at 2.6% of the amount due (2.7% in 2004/05) of the amount due. The figures are as follows:

	2005/06 £000	2004/05 £000
Arrears at 31 March	289	290

The balance sheet provision in respect of uncollectable debts is £0.096m, which includes a decrease of £0.013m for 2005/06. The arrears figure includes some other charges that are normally paid by tenants with their rent.

7. Asset Management Revenue Account

This account reverses out charges for the use of assets included in the Net Cost of Services and replaces them with the actual financing costs. Depreciation costs are compensated by the major repairs allowance included in the Government subsidy assessment and from transfers to/from the Major Repairs reserve, in order to ensure that there is no impact on Council tenants.

	2005/06 £000	2004/05 £000
Capital charge – interest (notional)	(7,075)	(8,113)
Interest	143	135
Financing charge re finance leases	54	54
Depreciation – dwellings and non-dwellings	3,032	3,425
Depreciation charged to net cost of services	(3,032)	(3,425)
Release of government grants/contributions	(8)	(6)
Total	(6,886)	(7,930)

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE HOUSING REVENUE ACCOUNT

8. Contributions towards expenditure

The General Fund makes a contribution to reflect the benefit the community as a whole receives from amenities provided in Council Housing areas. This relates to the cost of amenity area maintenance in respect of sold Council houses.

9. Direct Revenue Financing of Capital Schemes

In 2005/06, £1.153m of the Housing Revenue Account capital programme was financed directly from revenue, which was as planned in the revised budget.

10. Rent, Rates, Taxes and other charges

	2005/06 £000	2004/05 £000
Miscellaneous rents payable	3	4
Rates and charges	11	10
Premises insurance	25	25
Operating lease payments	23	22
Total	62	61

For further information in respect of operating lease obligations, see note 11 to the Consolidated Revenue Account.

11. HRA Fixed Assets 2005/06

	Value as at 31 March 2006 £000	Value as at 31 March 2005 £000
Land	3,757	3,518
Houses	196,013	222,769
Other Property	3,840	3,839
Leased Heating Systems	1,054	1,229
	204,664	231,355
Operational assets comprising dwellings and other land and buildings	198,408	225,104
Leased Heating Systems	1,054	1,229
Non operational assets	5,202	5,022
	204,664	231,355

The value of the dwellings within the HRA shows the economic cost to Government of providing Council housing at less than open market rents. The value of Council Housing had reduced considerably in 2005/06 this is because the adjustment factor used to reduce the vacant possession value to 'Existing Use – Social Housing' value has been reduced from 57% to 46% (This percentage is set by the ODPM). The vacant possession value of dwellings as at 31 March 2006 was £432.4m.

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE HOUSING REVENUE ACCOUNT

12. Major Repairs Reserve

The Major Repairs Reserve is funded from the Government's annual Major Repairs Allowance (MRA). It is credited with an amount equal to the depreciation on dwellings, transferred from the Capital Financing Reserve (CFR). It is written back to the CFR when capital expenditure is incurred that is eligible to be funded from MRA monies.

	2005/06	2004/05
	£000	£000
Balance as at 1 April	-	-
Amount transferred to the reserve (equivalent to depreciation on HRA dwellings)	3,032	3,425
Amount transferred from the reserve to the HRA	(879)	(1,335)
Capital Expenditure in the year (all on Council Housing)	(1,919)	(2,090)
Balance as at 31 March	234	-

13. Capital Expenditure and Financing Summary

Capital expenditure was financed as follows:

	2005/06	2004/05		2005/06	2004/05
	£000	£000		£000	£000
Dwellings	3,716	2,546	Capital receipts	-	799
			Revenue contributions	1,153	110
			Major repairs reserve	1,919	2,090
			Contributions	73	50
			Supported borrowing	571	-
			Change in working capital	-	(503)
	3,716	2,546		3,716	2,546

Total capital receipts from disposals of Council houses through the Right to Buy scheme during 2005/06 were £1.892m (this includes one rent to mortgage of £0.046m), receipts from sale of other dwellings including block built bungalows were £0.134m and receipts from sale of housing land were £0.025m.

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE HOUSING REVENUE ACCOUNT

14. Depreciation and Impairment

The total charges were as follows:

	2005/06		2004/05	
	Depreciation £000	Impairment £000	Depreciation £000	Impairment £000
Houses	2,795	18	3,183	109
Other Property	74	-	78	-
Central Heating (leased)	163	-	164	-
	3,032	18	3,425	109
Operational assets comprising dwellings and other land and buildings and leased heating	3,003	18	3,392	109
Non operational assets	29	-	33	-
	3,032	18	3,425	109

The impairment charge reflects the revised valuations applied by the external valuer. Further details are provided in accounting policies note 18, page 76.

15. Breakdown of the Amount of HRA Subsidy Receivable/Payable

The amounts paid to and received from the Government are based on a notional assessment of the HRA and details on how this is determined are set out below:

	2005/06 £000	2004/05 £000
Management Allowance	1,135	1,009
Maintenance Allowance	2,789	2,473
Major Repairs Allowance	2,153	2,090
Charges for capital	618	603
Other	12	17
	6,707	6,192
Interest on Receipts	(4)	(4)
Notional Income from Rents	(9,981)	(9,631)
Adjustment to 2004/05 subsidy	2	4
Total subsidy (payable)/receivable	(3,276)	(3,439)

16. Cost of Capital Charge

A cost of capital charge is included in the Housing Revenue Account. This represents a financing charge at a specified notional rate of interest (3.5% for assets carried at current value and 4.95% for assets carried at historical cost) based on the net amount at which the asset is included in the balance sheet. The charge is then credited out of the account below the 'Net Cost of Services' in order to ensure that there is no impact on tenants.

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE HOUSING REVENUE ACCOUNT

17. Amortised Premiums and Interest on Loan Premium

See note 24 to the Consolidated Revenue Account on page 27.

18. Pension Costs

Details of total revenue retirement benefit transactions are shown in note 10 to the Consolidated Revenue account on page 20.

As was the case in 2004/05, Authorities have been permitted to individually form their own views on that methodology which they consider to be most appropriate for apportioning costs to the HRA, as explained in the accounting policies. Hence the appropriate share of all pension cost components has been allocated (except actuarial gains and losses) to the HRA. A pension reserve movement entry adjusts the pension cost borne by the HRA so that there is no impact on the bottom line. Amounts included in the HRA are as follows:

	2005/06 £000	2004/05 £000
Repairs and maintenance	8	4
Supervision & management		
- General	(221)	(253)
- Special services	13	7
	(200)	(242)
Movement on pensions reserve:		
- reverse out FRS 17 composite entries	(272)	(259)
- employers' contributions payable to the scheme	472	501
	200	242
Total cost of FRS 17 adjustments to HRA	-	-

19. Contribution to minimum repayment provision

See note 15 to the Consolidated Revenue Account on page 22/23.

20. Sums directed by the Secretary of State – transfers to General Fund

Authorities are required to make any debits directed by the Secretary of State and to transfer an equivalent amount to the General Fund. The amount of £0.182m in 2005/06 (£0.229m in 2004/05) relates to the rent rebate subsidy limitation scheme.

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

THE COLLECTION FUND

This account reflects the statutory requirement for the Council to maintain a separate Collection Fund. It shows the transactions in relation to Council Tax, and Non-Domestic Rates and illustrates the way in which these have been distributed to Suffolk County Council, the Suffolk Police Authority, Parish and Town Councils and the Council's General Fund.

	Note Ref	2005/06 £000	2004/05 £000
INCOME			
Income from Council Tax	1	36,003	34,891
Transfers from General Fund			
- Council Tax Benefits	2	3,844	3,631
- Council Tax transitional relief	2	-	(1)
Income collectable from business ratepayers	3	15,381	14,628
Contribution from the General Fund (Discretionary Rate Relief)	6	81	76
		55,309	53,225
EXPENDITURE			
Precepts and Demands	5	39,855	38,596
Business Rates			
- Payment to National Pool	3	15,333	14,594
- Costs of collection	3	120	116
Council Tax - Bad and doubtful debts			
- Write offs		104	36
- Provisions	4	(55)	18
Contributions			
- Towards previous year's estimated Collection Fund Deficit		(195)	(85)
		55,162	53,275
Movement on Fund Balance	6	147	(50)
FUND BALANCE			
(Deficit)/Surplus at 1 April		(379)	(329)
Movement on fund balance		147	(50)
(Deficit)/Surplus at 31 March	6	(232)	(379)

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE COLLECTION FUND ACCOUNT

1. Council Tax Income

This figure reflects the net amount receivable from taxpayers in 2005/06 after allowing for entitlements to Council Tax benefits and transitional relief.

All domestic properties are banded according to their value at 1 April 1991 and a tax level is set to meet the demands from Suffolk County Council, Suffolk Police Authority, Babergh District Council and Parish/Town Councils.

The tax is set by dividing these demands by the Council's tax base, which is the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts and estimated changes during the year apply) expressed as an equivalent number of Band D dwellings.

The calculation of the tax base for 2005/06 and the income it was forecast to generate is shown below:

Band	Chargeable Dwellings	Factor	Band D Equivalents	Forecast Income £000
A	3,513.83	6/9ths	2,342.56	2,909
B	9,798.15	7/9ths	7,620.78	9,465
C	7,044.65	8/9ths	6,261.91	7,777
D	6,188.25	9/9ths	6,188.25	7,686
E	3,637.50	11/9ths	4,445.83	5,522
F	1,878.90	13/9ths	2,713.97	3,371
G	1,410.15	15/9ths	2,350.25	2,919
H	153.40	18/9ths	306.80	381
Total	33,624.83		32,230.35	40,030
Less provision for bad and doubtful debts (0.25%)			(80.58)	(100)
Less provision for banding adjustment (0.1866%)			(59.99)	(75)
Tax base for tax setting			32,089.78	39,855

The shortfall of £0.183m between the forecast gross income from the tax base of £40.030m and the amount of income from Council Tax payers, Benefits and Transitional Relief was equivalent to a reduction of 147 Band D properties and arose due to movements in the tax base. These include changes to the number of banded properties either due to down bandings or deletions from the list. Other movements include changes in the number of exemptions, discounts, disabled relief; second homes and long term empty property.

2. Transfers from General Fund

These amounts represent the total of individual entitlements to reductions in the amount of Council Tax payable in the year. Council Tax benefit and Transitional Relief granted are credited to the Collection Fund and charged to the General Fund. Transactions in relation to reimbursement by the Government of benefits and reliefs granted and the costs of administration are accounted for in the General Fund.

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE COLLECTION FUND ACCOUNT

3. Business Rates

The Council collects business rates in the district. The amount collected less an allowance for the cost of collection (of £0.120m in 2005/06) is paid over to the Government's National "Pool" for redistribution. The rateable value of all properties in the district at 31 March 2006 increased to £46.425m from £35.856m as at 31 March 2005, as a result of the 5-yearly revaluation of business properties in 2005, by the District Valuer to reflect movement in market prices. The national rate in the pound (fixed by the Government) for the year was 42.2p (45.6p in 2004/05). There was a small business multiplier introduced in 2005/06 of 41.5p in the pound.

The net amount collectable from ratepayers increased from £14.628m in 2004/05 to £15.381m in 2005/06 due to a range of factors including movements in the rating list following the 2005 revaluation. Reductions are made from gross charges for reliefs (transitional and charitable), allowances for empty properties and a provision for non-collection. This amount, less the allowance towards the cost of collection, which is transferred to the General Fund, is paid to the National Pool.

4. Bad and Doubtful Debts

Provision has been made for a 0.0625% non-collection rate in respect of Council Tax, compared to 0.09% as at 31 March 2005.

5. Precepts / Demands

The amounts included in the accounts are as follows:

	2005/06		2004/05	
	£000	£000	£000	£000
Suffolk County Council		30,420		29,589
Suffolk Police Authority		4,012		3,831
Babergh District Council				
District Council purposes	3,833		3,690	
Town/Parish Council purposes	1,590		1,486	
		5,423		5,176
Total		39,855		38,596

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE COLLECTION FUND ACCOUNT

6. Fund Balance / Allocations of Estimated Collection Fund Surplus

The Fund balance relating to Council Tax is shared between Suffolk County Council, Babergh District Council and the Suffolk Police Authority in proportion to the precept/demand on the fund for the year. This is based on an estimate of the balance made on 15 January in the preceding financial year. As at 31 March 2006 there was a deficit on Council Tax overall of £0.159m, excluding the allowance for discretionary rate relief (£0.298m as at 31 March 2005).

The movement on fund balance in respect of individual precepting bodies in 2005/06 is as follows:

	Fund Balance 31 March 2006 £000	Movement on Fund Balance 2005/06 £000	Balance 1 April 2005 £000
Babergh District Council			
- Council Tax	(22)	18	(40)
- Discretionary Rate Relief	(73)	8	(81)
Suffolk County Council			
- Council Tax	(121)	107	(228)
Suffolk Police Authority			
- Council Tax	(16)	14	(30)
Total	(232)	147	(379)

The deficit of £0.073m relating to discretionary rate relief granted to businesses is not met by the General Fund until the following year in accordance with Government regulations. However, the expenditure has been allowed for in the Consolidated Revenue Account for 2005/06.

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

CONSOLIDATED BALANCE SHEET

This shows the overall financial position of the Council and summarises its assets and liabilities at the end of the financial year.

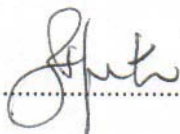
	Note Ref	31 March 2006		31 March 2005	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	7		962		406
Tangible fixed assets:	1-6				
Operational assets					
- Council housing dwellings		197,068		223,999	
- Other land and dwellings		12,042		11,468	
- Vehicles, plant and equipment		1,042		1,179	
- Infrastructure		748		790	
- Community assets		627		595	
Non operational assets:					
- Assets under construction		-		7	
- Land awaiting development		3,880		3,317	
- Commercial property		1,705		1,880	
- Surplus assets		210		196	
- Other		1,716		1,753	
			219,038		245,184
Total fixed assets	1-7		220,000		245,590
Long term debtors/mortgages	8		1,757		1,918
Long term investments	9		80		80
Total Long Term Assets			221,837		247,588
Current Assets					
Stocks and Stores		49		56	
Debtors	10	2,605		2,653	
Investments (short term)	11	5,321		5,534	
Cash and bank		-		281	
Other current assets	12	1,015		944	
		8,990		9,468	
Current Liabilities					
Creditors	13	(2,790)		(4,182)	
Other current liabilities	14	(1,846)		(1,657)	
Provisions	14	(27)			
Cash overdrawn		(351)		-	
Net current assets			3,976		3,629
Total Assets less Current Liabilities			225,813		251,217
Long term borrowing	15	(1,100)		-	
Deferred capital receipts	16	(142)		(151)	
Deferred credits	24	(208)		(246)	
Deferred liability (finance leases)	29	(1,105)		(1,310)	
Pensions liability	26	(14,618)		(14,866)	
			(17,173)		(16,573)
Total Assets less Liabilities			208,640		234,644

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

CONSOLIDATED BALANCE SHEET (Continued)

	Note Ref	31 March 2006		31 March 2005	
		£000	£000	£000	£000
Fixed asset restatement account	18		174,975		201,463
Capital financing account	18		39,279		39,345
Capital contributions unapplied	22		68		175
Capital grants unapplied	22		95		293
Capital receipts unapplied	20		1,241		1,144
Government grants – deferred	17		1,543		1,049
Capital contributions – deferred	17		1,503		1,479
Major Repairs Reserve			234		-
Revenue balances	23		4,320		4,562
Pensions reserve	26		(14,618)		(14,866)
Total Equity			208,640		234,644

Barry Hunter, Head of Finance.....



Dated: 29 September 2006

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE CONSOLIDATED BALANCE SHEET

1. Fixed Assets

	Council Housing Dwellings £000	Other land and buildings. £000	Vehicles Plant and Equipment £000	Infra-structure £000	Communi-ty assets £000	Non-Operational incl. HRA £000	Assets under construc- tion £000	Total £000
Book value as at 1 April 2005	223,999	11,468	1,179	790	595	7,146	7	245,184
Expenditure in year	3,716	158	126					4,000
Disposals in year	(1,987)	(59)				(72)		(2,118)
Adjustments in year		(9)				16	(7)	
Revaluations in year	(25,824)	779			32	492		(24,521)
Gross book Value 31 March 2006	199,904	12,337	1,305	790	627	7,582		222,545
Depreciation for year	(2,958)	(295)	(263)	(42)		(71)		(3,629)
Impairment	122							122
Net book value 31 March 2006	197,068	12,042	1,042	748	627	7,511		219,038
Note: Accumulated depreciation and impairment at 1 April 2005 (restated)	(768)	-	(750)	(555)	-	-		(2,073)
Accumulated depreciation and impairment to 31 March 2006	(809)	-	(1,013)	(597)	-	-		(2,419)

The revaluation figures are analysed below:

Revaluations in Year 2005/06	£m
Revaluation of HRA assets as at 1 April 2005 and annual indexing update as at 31 March 2006	(20.6)
Capital expenditure in year that does not increase asset values	(3.9)
Total Variation	(24.5)

The revaluation figures reflect the fact that not all capital expenditure adds to the value of the asset – capital expenditure can also be incurred on extending the life of an asset or enhancing its use. Assets held under finance leases include Central Heating systems (all HRA) valued at £1.054m as at 31 March 2006 (2004/05: £1.229m) and wheeled bins valued at £0.256m as at 31 March 2006 (2004/05: £0.282m). See also note 28 on page 53. The value of Council Housing had reduced considerably in 2005/06 this is because the adjustment factor used to reduce the vacant possession value to Existing Use – Social Housing has been reduced from 57% to 46%.

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE CONSOLIDATED BALANCE SHEET

2. Capital Commitments

As at 31 March 2006 the Council was contractually committed to certain capital works. There are major commitments on the following items of capital expenditure:

	£000
Sandringham Court redevelopment	906
Renovation Grants approved	139
Other commitments	531
Total	1,576

Other commitments, above, are contracts and grants that, individually, are not of sufficient value to require separate disclosure.

3. Information on Assets Held

Fixed assets owned by the Council include the following:

	Number at 31 March 2006	Number at 31 March 2005
Operational Assets		
HRA		
Council Dwellings (incl. DIYSO)	3,621	3,662
General Fund		
Council Headquarters	1	1
Offices and Other Buildings	1	1
Tourist Information Centres	2	2
Depots and Workshops	3	3
Off-Street Car Parks	20	21
Leisure Centre	1	1
Hadleigh Pool (land only)	1	-
Public Conveniences	13	13
Refuse vehicles	4	4
Bus Stations	1	1
Amenity Land and Community Assets	30	30
Non-operational assets		
HRA		
Shops	2	9
Misc. Properties	6	8
Vacant Land - awaiting development	15	27
- other	11	
General Fund		
Commercial Property available for rent	14	14
Other dwellings	5	5
Surplus property	2	2
Infrastructure Assets		
General Fund		
Town Centre CCTV System	1	1
Gt. Cornard Drainage System	1	1

The authority also owns a number of other assets, such as CCTV cameras, IT equipment and wheeled bins. The number of council dwellings above (3621) differs to the Housing Stock quoted in note 1 to the HRA (see page 29) by 8 dwellings, a reduction of 6 dwellings at Sandringham Court which are in the process of conversion, and 2 dwellings at Tawneys Ride Bures which are due to be demolished and the Valuer has valued the land only.

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE CONSOLIDATED BALANCE SHEET

4. Fixed Asset Valuation

The freehold and leasehold properties that comprise the authority's general fund property portfolio (and certain housing accommodation for the homeless) were professionally valued as at 1 April 2004 and a 'desktop' review was carried out as at 28 February 2006 by an external independent FRICS qualified valuer from The Valuation Office on the undermentioned basis in accordance with the Statements of Asset Valuation Practice and Guidance Notes of The Royal Institution of Chartered Surveyors. This valuation was further reviewed as at 31 March 2006 and the Valuer's opinion was that no further uplift was necessary. Specific assets are revalued on an annual basis where appropriate.

Plant, machinery and furniture & equipment in the main office accommodation is included in the valuation of the buildings.

Properties regarded by the authority as operational were valued on the basis of open market value for the existing use or, where this could not be assessed because there was no market for the asset, the depreciated replacement cost.

Properties regarded by the authority as non-operational have been valued on the basis of open market value.

Council Housing dwellings were revalued on an Existing Use Value for Social Housing basis, as at 1 April 2005, by an external independent FRICS qualified valuer from The Valuation Office, and a 'desktop' review was undertaken as at 2 February 2006. This valuation was further reviewed as at 31 March 2006 and the Valuer's opinion was that no further uplift was necessary.

Infrastructure assets represent the value of the Great Cornard Flood Relief Drainage System and the CCTV equipment installed in Sudbury and Hadleigh. These assets have been valued on the basis of historical cost.

	Council Housing Dwellings	Other land and buildings	Vehicles Plant and Equipment	Infra-structure	Communi-ty assets	Non-Operational incl. HRA	Assets under constructi on	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Valued at historical cost	1,054		1,042	748				2,844
Valued at current value in:								
2005/06	196,014	2,231				5,201		203,446
2004/05		9,811			627	2,310		12,748
2003/04								
2002/03								
Earlier years								
Total	197,068	12,042	1,042	748	627	7,511		219,038

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06

NOTES TO THE CONSOLIDATED BALANCE SHEET

5. Depreciation and Amortisation

Depreciation is charged on all Council assets, except in a few cases where the charge would not be material. Depreciation is calculated on a straight-line basis over the estimated remaining useful lives of the assets, which are set out in the table below.

Class of asset	Remaining life (years)
Council housing	48
Other land & buildings	1 – 48
Vehicles, plant & equipment	1 – 12
Infrastructure assets	3 – 29
Non-operational assets	10 – 48
Intangible assets	1 - 5

The wide range of useful lives reflects the individual nature of the assets concerned.

Central heating systems installed in Council Housing and financed by lease have been depreciated over the length of the leases (10 years).

Council housing has a range of estimated useful lives and 50 years was deemed to be the most appropriate and representative mid-point of these lives when depreciation rates were reviewed in 2003/04. See further information in note 18 of accounting policies on page 76.

6. Capital Expenditure and Financing

Capital expenditure in 2005/06 was financed as follows compared with 2004/05:

	2005/06 £000	2004/05 restated £000
Opening capital financing requirement	2,366	3,170
Capital investment		
Operational assets	4,000	3,573
Deferred charges	2,173	1,023
PSR Loans	115	112
Sources of finance		
Capital receipts	(1,241)	(1,999)
Government Grants and other contributions	(1,404)	(1,369)
Revenue provision (including MRR)	(3,072)	(2,200)
Finance lease & adjustments	-	(13)
Conversion neg. PCL to capital receipts	-	69
Closing capital financing requirement	2,937	2,366

The increase of £0.571m in 2005/06 represents an increase in the underlying need to borrow.

7. Intangible Assets

Under the capital accounting system deferred charges arose where expenditure was charged to capital and financed by loan but no tangible asset was acquired (e.g. grants towards capital costs incurred by other bodies/individuals). The accounting policy in respect of deferred charges changed in 2004/05 (see note 3, page 62) and they are now fully amortised to revenue. For information purposes, the movements in the year compared with 2004/05 were:

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE CONSOLIDATED BALANCE SHEET

	2005/06 £000	2004/05 £000
Balance at 1 April	406	612
Expenditure (including accruals)	2,173	1,023
Amounts financed from usable receipts/revenue etc	(1,355)	(1,064)
Amortisation charged to consolidated revenue account	(262)	(165)
Balance at 31 March	962	406

The increase in expenditure over the previous year is mainly due to increased expenditure on ICT, Private Sector Housing plus Drainage and Estate Improvements in Great Cornard. The balance at 31 March is classified as intangible assets:

Software and other ICT expenditure	Historical cost £000	Cumulative amortisation £000	Net carrying amount £000
At 1 April 2005	1,182	(776)	406
At 31 March 2006	2,000	(1,038)	962

8. Long Term Debtors

These are amounts owing to the Council which become due over a longer period of time than one year, although some repayments will be made in the next financial year. The amounts are analysed below:

	31 March 2006 £000	Written down in year	31 March 2005 £000
Loan premium repayments	1,462	(265)	1,727
Housing mortgages	62	(9)	71
Other	8	-	8
PSR Loans	225	113	112
Total	1,757	(161)	1,918

9. Long Term Investment

The investment concerned is £80,000 debentures issued by the Association of District Councils (ADC), which is now incorporated within the Local Government Association. This investment was in respect of new office accommodation; the earliest that any part of this could have been redeemed was June 2001. Interest is not receivable on these debentures but on redemption the Council will be repaid in full and will receive a share of any accrued capital appreciation (less tax) on the property acquired by the ADC from the amount raised by the debenture issue. Any future dividend arising from appreciated capital value of the ADC office building will accrue at the end of the debenture scheme in 2011. The Council has taken a prudent view in respect of the current property market and therefore no allowance for capital appreciation has been made in the accounts at this time and the investment is included at cost price.

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE CONSOLIDATED BALANCE SHEET

10. Debtors

An analysis of amounts due is shown below:

	31 March 2006 £000	31 March 2005 £000
HM Customs & Excise	529	220
Government departments	70	80
Other Local Authorities	277	571
Business ratepayers	234	307
Council taxpayers	761	968
Housing rents	289	298
Rent rebate overpayments	282	213
Employee car loans	118	120
Sundry debtors	208	221
Listed debtors	249	171
	3,017	3,169
Less: bad debt provision (see below)	(412)	(516)
Total	2,605	2,653

The amount owing to HM Customs & Excise has increased compared to the previous year as two months VAT were owing as at 31 March 2006 compared with one month as at 31 March 2005. The amounts owing to Other Local Authorities has reduced mainly due to collaborative funding of £0.240m owed by Suffolk County Council at the end of 2004/05, which has been paid in the year.

The Council is required to use estimation techniques in establishing a provision for bad and doubtful debts in respect of local taxation and housing rent arrears. The provisions in relation to council tax and business rates are based upon experience of debt recovery and the specific stage within the debt recovery process that individual accounts stand.

The provisions at 31 March were:

	2006 £000	2005 £000
Council Tax	201	256
Non Domestic Rates (NNDR)	115	151
Housing Rents	96	109
Total	412	516

11. Short-Term Investments

Short-term investments were deposited with the following lenders at 31 March.

	2006 £000	2005 £000
UK Clearing Banks	4,321	3,334
Foreign Banks	-	1,000
Building Societies	1,000	1,200
Total	5,321	5,534

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE CONSOLIDATED BALANCE SHEET

12. Other Current Assets

These include payments made in advance for goods and services to be received in 2006/07. The total is £0.071m more than the previous year. This is mainly due to payments in advance of grants to South Suffolk Leisure Trust.

13. Creditors

An analysis of amounts due is shown below:

	31 March 2006 £000	31 March 2005 £000
Government departments	663	1,687
Inland Revenue	200	16
Other Local Authorities	161	289
Sundry creditors	1,766	2,190
Total	2,790	4,182

The significant decrease in amounts owing to Government departments reflects the reduced amount due to the non-domestic rates 'pool'.

14. Other Current Liabilities and Provisions

An analysis of amounts due is shown below:

	31 March 2006 £000	31 March 2005 £000
Receipts in advance:		
- Council Tax	754	727
- Business rates	291	270
- Housing rents	37	46
- Other	289	236
Finance Leases	195	195
Miscellaneous	280	183
Total	1,846	1,657

£175k relating to Section 106 agreements with various developers is included in the miscellaneous amount. Receipts in the year amounted to £109k and £16k was spent on a capital scheme (Hadleigh High Street improvements).

	31 March 2006 £000	Movement in Year £000	31 March 2005 £000
Planning Appeals	27	27	0
Total	27	27	0

In addition a provision has been made in relation to a planning appeal where costs have been awarded against the Council, as a proportion of the appellants' initial claim is expected to be payable after further negotiation and agreement.

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE CONSOLIDATED BALANCE SHEET

15. Long Term Borrowing

The Council borrowed £1.1m from the Public Works Loan Board on 26 January 2006.

16. Deferred Capital Receipts

Deferred capital receipts are amounts derived from sales of assets, which will be received in installments over agreed periods of time. They arise principally from mortgages on sales of Council houses which form the main part of mortgages under long term debtors and £80,000 is also included in respect of the ADC debenture (see note 9 page 45).

17. Government Grants / Capital Contributions Deferred

These balances represent monies received in respect of the acquisition or improvement of a fixed asset. For depreciable assets, the balance will be released to the asset management revenue account over the useful life of the asset to match the depreciation charged on the asset to which it relates. At 31 March these amounts were:

Capital Scheme	Grant/Contribution	2006 £000	2005 £000
Closed Circuit TV	Home Office Grant	26	39
Great Cornard Surface Water Drainage – Phase 1	Ministry of Agriculture Grant Suffolk County Council	108	114
Great Cornard Surface Water Drainage – Phase 2	Ministry of Agriculture Grant Suffolk County Council	152	160
Drainage – Anglia Estates	Ministry of Agriculture Grant Suffolk County Council	47	49
Kingfisher Leisure Centre	Suffolk County Council HRA	66	68
	National Lottery Award	146	98
	Other Sources	193	201
East House	Insurance	64	67
	Suffolk County Council	469	482
Flatford TIC	National Lottery Award	41	42
Raydon Way, Great Cornard	Insurance Claim	143	147
Recycling bins	DEFRA	44	45
Garden Waste bins	DEFRA	217	241
Refuse Vehicles	DEFRA	47	53
IT (E-Gov't grant)	ODPM	221	266
IT (HB admin grant)	ODPM	501	238
CAST project (S & C grant)	ODPM	5	8
Other Schemes	Various contributions	371	41
		185	169
Total		3,046	2,528

18. Fixed Asset Restatement Account and Capital Financing Account

The movement on these reserves is fully detailed in the Statement of Total Movement on Reserves and the accompanying notes.

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE CONSOLIDATED BALANCE SHEET

19. Capital Receipts

From April 2004, the Government introduced a ‘pooling’ arrangement for capital receipts, which replaced the system of setting amounts aside for the repayment of external loans. Prior to April 2004, the proportions of capital receipts to be set aside were 50% for Housing land sales, 75% of Council House sales and 100% of Housing Corporation Grant, except for debt-free councils. The remaining proportions could be used for new capital investment.

Under the new pooling arrangement, the council has to pay these set aside proportions over to the Government. However, due to the council’s debt-free status as at 1st April 2004, only 50% of the 75% of Council House sales has to be paid over, with the rest being usable for capital investment. The figures for the last two years are as follows, which show a reduction in 2005/06 of Usable receipts, this is due to transitional arrangements whereby 25% of the 75% of Council House sales was paid over to the Government in 2004/05 increasing to 50% of the 75% in 2005/06:

	2005/06 £000	2004/05 £000
Pooled	722	349
Usable	1,310	1,815
Total Receipts	2,032	2,164

20. Usable Capital Receipts

	2005/06 £000	2004/05 £000
Balance at 1 April	1,144	1,328
Prior year adjustment	28	-
Receipts in year	2,032	2,095
Converted from PCL (Provision for Credit Liability)	-	69
Applied during the year:		
- on new expenditure	(1,241)	(1,999)
- paid over to Pool	(722)	(349)
Balance at 31 March	1,241	1,144

21. Amount set aside for Loan Debt Redemption (Memorandum Account)

The Council is required to set aside sums for the repayment of debt or the financing of capital expenditure (providing there are sufficient unused credit approvals). The balance is included within the capital financing reserve. £1.1m of new borrowing was undertaken in 2005/06.

	2005/06 £000	2004/05 £000
Balance at 1 April	14,333	14,402
Conversion to capital receipts	-	(69)
Balance at 31 March	14,333	14,333

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06

NOTES TO THE CONSOLIDATED BALANCE SHEET

22. Capital Contributions/Grants Unapplied

These are sums that are not defined as capital receipts but have been received in connection with capital schemes and will be used to finance new capital expenditure or repay debt in the future.

23. General Fund Reserves and Balances

The movements on the various reserves are shown below:

	Balance 31 March 2006 £000	(Used)/ Added in Year £000	Balance 1 April 2005 £000
General Fund Reserves/Balances	3,393	21	3,372
Housing Revenue Account	1,159	(410)	1,569
Collection Fund	(232)	147	(379)
Total	4,320	(242)	4,562

The collection fund balance consists of a £0.159m deficit on Council Tax, and a deficit of £0.073m resulting from the treatment of discretionary rate relief. The Council Tax deficit will be debited to the General Fund and to Suffolk County Council/Suffolk Police Authority in due course, although the actual debit will be dependent on future tax yields and collection rates. The discretionary rate relief will be charged to the General Fund in 2006/07 and an accrual has been made for this liability (see note 6 to the Collection Fund on page 38).

24. Deferred Credits

This is the balance of the discounts received on premature repayment of external debt and will be credited to the revenue account in future years to reduce capital financing costs in the asset management account. The current balance of deferred credits will be credited to revenue over the next 10 years. Note 15 of the accounting policies describes the basis (see page 75).

25. Analysis of Net Assets Employed

The table below shows the reserves (both revenue and capital) attributable to the General Fund, the Housing Revenue Account and the authority's trading operations (see note 20, page 26).

	31 March 2006 £000	31 March 2005 £000
General Fund	18,151	16,844
Trading Operations	69	50
Housing Revenue Account	190,420	217,750
Total	208,640	234,644

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE CONSOLIDATED BALANCE SHEET

26. Pension Fund

Note 10 to the Consolidated Revenue Account contains details of the Authority's participation in the Local Government Pensions Scheme (administered by Suffolk County Council) in providing retirement benefits. The underlying assets and liabilities for retirement benefits attributable to the authority as at 31 March are as follows:

	31 March 2006 £000	31 March 2005 £000
Estimated liabilities in scheme	(53,735)	(44,903)
Estimated assets in scheme	39,117	30,037
Net asset/(liability)	(14,618)	(14,866)

The liabilities show the underlying commitments that the authority has in the long-run to pay retirement benefits. The total liability of £14.6m has an impact on the net worth of the authority as recorded in the balance sheet, which is reflected in the total equity figure of £208.9m.

However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary;
- finance is only required to be raised to cover pensions when the pensions are actually paid.

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The scheme has been assessed by Hymans Robertson, an independent firm of actuaries, estimates being based on the last full valuation of the scheme as at 31 March 2004. The main assumptions used in their calculations are:

Assumptions as at:	31 March 2006 %	31 March 2005 %
Rate of inflation	3.1	2.9
Rate of increase in salaries	4.6	4.4
Rate of increase in pensions	3.1	2.9
Proportion of employees opting to take a commuted lump sum	0.0	N/A
Rate for discounting scheme liabilities	4.9	5.4

Changes to the Local Government Pension Scheme permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries we have taken the view that there is insufficiently reliable evidence to assume a level of take-up of the change in the pension scheme. Consequently the valuation of the Council's retirement benefit liabilities as at 31 March 2006 does not include any allowance for this change to the pension scheme.

Assets in the Suffolk County Council's Pension Fund are valued at fair value, principally market value for investments, and consist of the following categories, by proportion of the total assets held by the Fund:

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE CONSOLIDATED BALANCE SHEET

Assets (Whole Fund)	Long term return %	31 March 2006 % of assets	31 March 2005 % of assets
Equity investments	7.4	71	69
Bonds	4.6	16	17
Property	5.5	11	12
Cash	4.6	2	2
Total	6.7	100	100

The movement in net pension liability is as follows:

	Year to 31 March 2006	Year to 31 March 2005
	£000	£000
Net pensions liability at 1 April	(14,866)	(8,670)
Movements in the year:		
Current service cost	(1,147)	(1,039)
Employers' contributions payable to scheme	1,874	1,957
Retirement benefits payable to pensioners	-	-
Past service costs	-	(16)
Interest costs	(2,435)	(1,889)
Expected return on assets in the scheme	2,111	1,822
Actuarial gains / (losses)	(155)	(7,031)
Net pensions liability at 31 March	(14,618)	(14,866)

The above figures have been provided by the actuaries to the Pension Scheme using information provided by the scheme and assumptions determined by the Council in conjunction with the actuary.

Actuarial calculations involve estimates based on assumptions about events and circumstances in the future, which may mean that the result of actuarial calculations may be affected by uncertainties within a range of possibilities.

27. Hadleigh and District Swimming Pool

The Council acts as sole Trustee for the Hadleigh and District Swimming Pool, which is a registered charity. The asset relating to the pool building is not included in the balance sheet as it is not an asset of Babergh District Council in its Local Authority role. The Authority, however, fully funds the net revenue expenditure of the pool as part of the Council's normal activities and this is recorded as such in the General Fund. This is equivalent to Babergh giving an annual grant to the charity and is reflected as such in the charity's accounts.

During the year, the authority incurred gross expenditure of £0.072m (2004/05 £0.045m) in its capacity of trustee of the pool. As part of the management agreement for the pool, a share of the pool's income is deducted from the monthly management fee charged to Babergh. The charity's share of this income amounted to £0.001m (2004/05 £0.001m).

Due to the funding mechanism mentioned above, the charity has no liabilities at any given year-end.

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE CONSOLIDATED BALANCE SHEET

28. Deferred Liabilities and Asset Values (re Finance leases)

In order to fully convey the impact of finance leases on the Authority's statement of accounts, the following information is required. The central heating assets listed below form part of the asset category of 'Council House Dwellings' and wheeled bins are included within 'Vehicles, Plant & Equipment'.

Finance Lease Assets	Central Heating £000	Wheeled Bins £000	Total £000
Gross value	1,785	307	2,092
Disposals	(69)	-	(69)
Accumulated depreciation	(662)	(51)	(713)
Net value	1,054	256	1,310
Memo: depreciation charge in 2005/06	(164)	(25)	(189)

Finance Lease Liabilities	Central Heating £000	Wheeled Bins £000	Total £000
Deferred liability as at 1 April 2005	1,229	276	1,505
Disposals re sold council houses	(11)	-	(11)
Payments in year	(164)	(31)	(195)
Deferred liability as at 31 March 2006	1,054	245	1,299

The deferred liability falls due in future periods as follows:

Amount due in 2006/07	163	31	194
Amounts due between 2007/08 and 2010/11	622	122	744
Amounts due after 2010/11	269	92	361
Total	1,054	245	1,299

Financing charge	Central Heating £000	Wheeled Bins £000	Total £000
Amounts charged to revenue in the year	54	5	59

See also note 11 to the Consolidated Revenue Account (page 21) in respect of liabilities on operating leases.

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE CONSOLIDATED BALANCE SHEET

29. Post Balance Sheet Events

A Charitable Trust (South Suffolk Leisure Trust) has been set up to run the Council's leisure facilities, initially involving the Kingfisher Leisure Centre and Hadleigh Swimming Pool. The trust became operational in April 2006, and the assets relating to these facilities were leased to the trust from that date.

30. Contingent Liabilities

There is a possibility of appellants' legal costs being payable of up to £100,000 in respect of two planning appeals if the court decides against the Council. The Council does not consider that the Court will find the Council liable for either of these, and hence has made no provision in the accounts.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06

STATEMENT OF TOTAL MOVEMENT IN RESERVES

The Statement of Total Movement in Reserves brings together all the recognised gains and losses of the Council during the year. The statement separates the movement between revenue and capital reserves. The current statutory framework for accounting for capital income and expenditure requires that profits and losses upon the disposal of fixed assets do not pass through the Consolidated Revenue Account. These transactions are reflected in the account below as movements in reserves.

	Note ref.	2005/06		2004/05	
		£000	£000	£000	£000
Surplus/(Deficit) for the year					
- General Fund		21		(153)	
- Housing Revenue Account		(410)		77	
- Collection Fund		147		(50)	
- Deferred Credits		(38)		(38)	
- Major Repairs Reserve		234		-	
- Appropriation from pensions reserve	6	403		835	
- Actuarial gains and losses relating to pensions	5	(155)		(7,031)	
Total increase/(decrease) in revenue resources	6		202		(6,360)
Increase/(decrease) in usable capital receipts	1	97		(184)	
Increase/(decrease) in unapplied capital grants and contributions	1	(305)		181	
Total increase/(decrease) in realised capital resources			(208)		(3)
Total increase/(decrease) in unrealised value of fixed assets	2		(20,647)		19,618
Value of assets sold, disposed of or decommissioned	3		(5,831)		(4,897)
Capital receipts set aside		-		-	
Revenue resources set aside		(67)		(165)	
Movement on Government Grants deferred		495		557	
Movement on contributions deferred		24		(94)	
Total increase/(decrease) in amounts set aside to finance capital investment	4		452		298
Total recognised gains and losses			(26,032)		8,587

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE STATEMENT OF TOTAL MOVEMENT IN RESERVES

	2005/06		2004/05	
1 Movements in realised capital resources	Usable capital receipts £000	Unapplied capital grants and contributions £000	Usable capital receipts £000	Unapplied capital grants and contributions £000
Amounts receivable in year	2,032	1,126	2,095	1,550
Prior year adjustment	28	(27)		
Converted from PCL	-	-	69	
Amounts applied to finance new capital investment in year	(1,241)	(1,404)	(1,999)	(1,369)
Capital Receipts paid over to pool	(722)		(349)	-
Total increase/(decrease) in realised capital resources in year	97	(305)	(184)	181
Balance brought forward at 1 April	1,144	468	1,328	287
Balance carried forward at 31 March	1,241	163	1,144	468

	2005/06	2004/05
2 Movements in unrealised value of fixed assets	Fixed asset restatement account £000	Fixed asset restatement account £000
Gains/(losses) on revaluation of fixed assets in year	(20,647)	19,618
Total increase/(decrease) in unrealised capital resources in year	(20,647)	19,618

	2005/06	2004/05
3 Value of assets sold, disposed of or decommissioned		
Amounts written off fixed asset balances for disposals in year	(1,967)	(2,135)
Other movement on the reserve	(3,864)	(2,762)
Movement on assets sold, disposed of or decommissioned	(5,831)	(4,897)
Total movement on reserve in year	(26,478)	14,721
Balance brought forward at 1 April	201,463	186,742
Balance carried forward at 31 March	174,985	201,463

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE STATEMENT OF TOTAL MOVEMENT IN RESERVES

	2005/06				2004/05
	Capital Financing Account £000	Government Grants Deferred £000	Contributions Deferred £000	Total £000	Total £000
4 Movements in amounts set aside to finance capital investment					
Capital receipts set aside in year	-			-	-
- capital expenditure financed from revenue	1,153			1,153	110
- capital expenditure financed by capital receipts	423			423	1,514
- capital expenditure financed by MRA	1,919			1,919	2,090
- reconciling amount for provision for loan repayment	(500)			(500)	(379)
- adjustment re HRA depreciation	(3,032)			(3,032)	(3,425)
- impairment	(18)			(18)	(109)
- other adjustments	(12)			(12)	34
- conversion of PCL to capital receipts	-			-	(69)
Total revenue resources set aside in year	(67)			(67)	(234)
Prior year adjustment		12		12	
Grants applied to capital investment in year		794	73	867	791
Amounts credited to the asset management revenue account in year		(311)	(49)	(360)	(328)
Movement on Government Grants Deferred		495	24	519	463
Total increase in amounts set aside to finance capital investment				452	229
Total movement on reserve in year	(67)	495	24	452	229
Balance brought forward at 1 April	39,345	1,049	1,479	41,873	41,644
Balance carried forward at 31 March	39,278	1,544	1,503	42,325	41,873

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06

NOTES TO THE STATEMENT OF TOTAL MOVEMENT IN RESERVES

5. Actuarial Gains/(Losses) on Pensions Reserve

The actuarial gains identified as movements on the Pensions Reserve in 2005/06 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2006:

	2005/06		2004/05		2003/04		2002/03	
	£000	%	£000	%	£000	%	£000	%
Differences between the expected and actual return on assets	5,856	15.0	1,074	3.6	3,402	13.2	(5,873)	(29.4)
Differences between actuarial assumptions about liabilities and actual experience	-	-	(759)	(1.7)	(12)	-	(303)	(0.9)
Changes in the demographic and financial assumptions used to estimate liabilities	(6,011)	(11.2)	(7,346)	(16.4)	-	-	-	-
Total	(155)	(0.3)	(7,031)	(14.5)	3,390	9.9	(6,176)	(19.1)

6. Movement in revenue resources

	General Fund Balances	HRA Balances	Pensions Reserve	Collection Fund & Deferred Credits	Major Repairs Reserve
	£000	£000	£000	£000	£000
Surplus/(deficit) for 2005/06	21	(410)			
Appropriations to/from revenue				109	234
Actuarial gains and losses relating to pensions			(155)		
Reversal of FRS17 composite pension entries			(1,471)		
Charging of pension costs payable to Council Tax			1,874		
	21	(410)	248	109	234
Balance brought forward at 1 April 2005	3,372	1,569	(14,866)	(133)	-
Balance carried forward at 31 March 2006	3,393	1,159	(14,618)	(24)	234

Further details of the reporting requirements for pension payments and on the pensions reserve can be found in note 10 to the Consolidated Revenue Account (page 20) and in note 26 to the Consolidated Balance Sheet (page 51).

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

CASH FLOW STATEMENT

	Note Ref	2005/06		2004/05	
		£000	£000	£000	£000
Revenue Activities					
<u>Cash Outflows</u>					
Cash paid to and on behalf of employees		9,730		9,874	
Other operating cash payments		6,326		4,748	
Housing Benefit paid out		11,422		10,726	
National non-domestic rates payments to national pool		15,333		14,594	
Precepts paid		35,827		34,821	
Payments to the capital receipts pool		640		284	
<u>Cash inflows</u>					
Rents (after rebates)		(7,723)		(7,273)	
Council Tax receipts		(32,268)		(31,252)	
National non-domestic rate receipts from national pool		(1,287)		(3,475)	
Non-domestic rate receipts		(15,521)		(14,657)	
Revenue Support Grant		(2,364)		(2,211)	
DWP grants for housing benefits		(15,120)		(14,220)	
Other Government grants	4	(1,160)		(1,378)	
Cash received for goods and services		(3,188)		(3,262)	
Other operating cash receipts		(1,136)		(1,531)	
	2		(489)		(4,212)
Servicing of Finance					
<u>Cash Outflows</u>					
Interest paid	5	-		-	
Interest element of finance lease rental payments	5	58		119	
<u>Cash inflows</u>					
Interest received		(359)		(435)	
			(301)		(316)
Capital Activities					
<u>Cash Outflows</u>					
Purchase of fixed assets		3,492		3,686	
Other capital cash payments		2,320		1,258	
<u>Cash inflows</u>					
Sale of fixed assets		(2,123)		(2,159)	
Capital grants received		(806)		(1,091)	
Other capital cash receipts		(341)		(537)	
			2,542		1,157
Net cash (inflow)/outflow before financing			1,752		(3,371)
Management of Liquid Resources					
Net increase/(decrease) in short term deposits	3		(213)		3,065
Financing					
<u>Cash outflows</u>					
Capital element of finance lease rental payments		193		391	
<u>Cash inflows</u>					
New loans raised		(1,100)		-	
			(907)		391
(Increase)/decrease in cash and cash equivalents	3		632		85

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE CASH FLOW STATEMENT

1. General

This consolidated statement summarizes the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

2. Reconciliation of Surplus to Net Cash Flow

This note gives a reconciliation between the (surplus) deficit on the income and expenditure accounts for the General Fund, Housing Revenue Account and Collection Fund and the net cash flow from revenue activities.

	2005/06		2004/05	
	£000	£000	£000	£000
(Surplus)/Deficit for the year		217		114
Non Cash Transactions				
+/- minimum revenue provision	-		-	
+/- provisions set aside in the year	104		26	
+/- contbs. to/from Major Repairs Reserve	(2,128)		(2,090)	
-/+ premature debt redemption	38		38	
		(1,986)		(2,026)
Items on an Accruals Basis				
+/- increase/decrease in stocks	(7)		11	
+/- increase/decrease in debtors	(112)		(1,296)	
+/- increase/decrease in payments in advance	(194)		(265)	
+/- increase/decrease in imprests	2		3	
-/+ increase/decrease in creditors	1,516		(1,846)	
-/+ increase/decrease in receipts in advance	(91)		(3)	
-/+ increase/decrease in suspense accounts	(98)		93	
-/+ increase/decrease in provisions	(27)		-	
		989		(3,303)
Items Classified in another Classification in the Cash Flow Statement				
Interest	301		316	
Internal recharges to capital	421		448	
Payments to the capital receipts pool	722		349	
Direct revenue financing of capital schemes	(1,153)		(110)	
		291		1,003
Net cash (inflow)/outflow from revenue activities		(489)		(4,212)

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

NOTES TO THE CASH FLOW STATEMENT

3. Increase / Decrease in Cash and Liquid Resources

The table below links the net decrease in cash overdrawn and short-term investments with the movements in the balance sheet.

	Balance 31 March 2006 £000	Movement In year £000	Balance 1 April 2005 £000
Cash overdrawn	(351)	632	281
Short-term investments	5,321	213	5,534
Movement in net cash	4,970	845	5,815

Short-term investments are amounts placed on deposit with approved institutions such as banks and building societies. See also note 11 to the consolidated balance sheet on page 46.

4. Analysis of Other Government Grants

The government grants included within the "other government grants" figure are shown below.

	2005/06 £000	2004/05 £000
HB (Admin) grant	338	315
Verification Framework Grant	80	80
Housing Defects Act subsidy	7	7
Fraud Incentive Scheme	114	52
Beacon Council Grant	-	79
Civil Protection grant (Home Office)	15	8
Supporting People grant	427	468
Pension Credits (Admin) grant	15	19
Tax Credits (Admin) grant	9	12
Business Growth Incentive Scheme	40	-
Waste Performance & Efficiency Grant	26	-
Planning Delivery grant	92	341
Council Tax reduction scheme grant	-	(1)
Discretionary Housing Payments	(3)	(2)
Total	1,160	1,378

5. Financing Costs

The Council borrowed £1.1m during 2005/06 but no interest was actually paid out on this loan in the year. Interest on this loan was accrued in 2005/06 and therefore the only financing costs shown on the cash flow statement relate to finance leases for central heating in council houses.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06
STATEMENT OF ACCOUNTING POLICIES

1. General

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), guidance notes issued by CIPFA on the application of accounting standards and the latest Statement of Recommended Practice (SORP).

The following accounting policies are consistent with the accounting concepts and, where appropriate, the relevant accounting standard is followed in respect of the specific areas of income, expenditure and balances.

2. Accruals of Income and Expenditure

a) Customer and Client Receipts

Customer and client receipts in the form of sales, fees, charges and rents are accrued and accounted for in the period to which they relate. An exception to this policy relates to electricity and similar quarterly payments, which are charged at the date of meter reading rather than being apportioned between financial years. No significant estimates have been made for debtors.

b) Employee Costs

The full cost of the employees is charged to the accounts of the period within which the employees worked. Accrual is made for wages earned but unpaid at the year-end. Where retrospective adjustments or special payments are required, for example through pay awards or redundancy payments, the accounts are charged (or credited) with the additional amount as soon as it can reasonably be estimated.

c) Interest

Interest payable on external borrowings and interest income is accrued and charged in the accounts of the period to which it relates. Interest charges are based on actual rates in force during the year.

d) Supplies and Services

The cost of supplies and services is accrued and accounted for in the period during which they were consumed or received. Accrual is made for all material sums unpaid at the year-end for goods or services received or works completed. No significant estimates have been made for creditors.

3. Deferred Charges

Deferred Charges are amortised to revenue over an appropriate period consistent with the consumption of the economic benefits controlled by the Council. Because of the types of expenditure to which deferred charges usually apply, e.g. improvement grants, the Council will seldom control the economic benefits arising from the expenditure and in such cases 100% of the deferred charge is amortised to revenue in the year it is recognised.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06

STATEMENT OF ACCOUNTING POLICIES

In those cases where the Council does control the economic benefits arising from the expenditure and can therefore properly recognise an asset in the balance sheet, it is not described as a Deferred Charge but as the recognised category of asset that it actually is. For example, in the case of software licences 'Intangible Asset' would be appropriate.

4. Estimation Techniques

Separate disclosures, if appropriate, are given within the notes to the accounts where the amounts estimated are so significant that the use of a different amount from within the range of the technique could materially affect the financial statements. There are no significant estimates within debtors and creditors.

5. Prior Period Adjustments

The majority of prior period items arise from corrections and adjustments that are the natural result of estimates inherent in the accounting process. Such adjustments constitute normal transactions for the year in which they are identified and are accounted for accordingly. Material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors are accounted for by restating the comparative figures for the preceding period in the statement of account and notes and adjusting the opening balance of reserves for the cumulative effect. The cumulative effect of the adjustments is also noted at the foot of the statement of total movements in reserves of the current period. The effect of prior period adjustments on the outturn for the preceding period is also disclosed where practicable.

6. Government Grants towards Revenue Costs

Revenue grants are matched with the expenditure to which they relate. Grants made to finance the general activities of the Council or to compensate for a loss of income are credited to the revenue account of the period in respect of which they are payable.

7. Government Grants and Contributions towards Capital Schemes

Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is credited to the government grants-deferred account. Amounts are released to the asset management revenue account over the useful life of the asset to match the depreciation charged on the asset to which it relates.

Government grants and other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06

STATEMENT OF ACCOUNTING POLICIES

8. Intangible Assets (excluding goodwill and development expenditure)

An intangible item may meet the definition of an asset when access to the future economic benefits that it represents is controlled by the reporting entity, either through custody or legal protection.

Recognition

Purchased intangible assets (e.g. software licences) are capitalised as assets. Internally developed intangible assets are only capitalised where there is a readily ascertainable market value, which is unlikely to occur in the Council's single entity financial statements.

Measurement

A purchased intangible asset is capitalised at its costs.

FRS 10 permits but does not require revaluation. An intangible asset may only be revalued where it has a readily ascertainable market value. Where an intangible asset is included in the balance sheet at current value, the increase over the previous carrying amount at which that asset was included in the balance sheet immediately prior to the latest (re)valuation is credited to a fixed asset restatement account.

Amortisation

Intangible assets are amortised on a systematic basis over their economic lives. Where access to the economic benefits associated with an intangible asset is achieved through legal rights that have been granted for a finite period the economic life will not extend beyond that period unless the legal rights are renewable and renewal is assured. There is a rebuttable presumption that the economic lives of intangible assets are limited to periods of 20 years or less. The useful economic lives of intangible assets are reviewed at the end of each reporting period and revised if necessary.

In amortising an intangible asset a residual value may be assigned to the asset only if such residual value can be measured reliably. In practice the residual value of an intangible asset is usually nil or insignificant. The method of amortisation reflects the expected pattern of depletion. A straight-line method is normally chosen unless another method can be demonstrated to be more appropriate.

Disposals

Income from the disposal of intangible assets is credited to the usable capital receipts reserve, and accounted for on an accruals basis.

Upon disposal, the net book value of the intangible asset disposed of is written off against the fixed asset restatement account.

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Impairment

Intangible assets that are amortised over a finite period not exceeding 20 years from the date of acquisition are reviewed for impairment:

- (a) at the end of the first full financial year following the acquisition, and
- (b) in other periods if events or changes in circumstances indicate that the carrying values may not be recoverable.

Intangible assets that are amortised over a period exceeding 20 years from date of acquisition or are not amortised are reviewed for impairment at the end of each reporting period.

Charges to Revenue

General Fund service revenue accounts, as defined in CIPFA's Best Value Accounting Code of Practice, central support services and trading accounts are charged with a provision for amortisation and where required, any related impairment loss (due to a clear consumption of economic benefits), for all intangible assets used in the provision of the service. Charges to the HRA are the amounts as determined by statutory provision. An amount equal to the amortisation charges for the use of intangible assets and relevant impairment losses included in revenue accounts is credited to the asset management revenue account.

9. Investments

All investments have been recorded in the accounts at cost less provision, where appropriate, for loss in value.

10. Leases

Finance Leases

Rental payments under finance leases are apportioned between the finance charge and the reduction of the outstanding obligation, with the finance charge being allocated and charged to revenue over the term of the lease.

The amount due from the lessee under a finance lease is recorded in the balance sheet of the lessor as a debtor at the amount of the net investment. The total gross earnings under a finance lease are allocated to accounting periods to give a constant periodic rate of return to the lessor's net cash investment in the lease in each period.

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Operating Leases

Rentals payable, net of benefits received or receivable, under operating leases are charged to revenue on a straight-line basis over the term of the lease, unless another systematic and rational basis is more appropriate.

11. Overheads

Charges or cost apportionments covering all support service costs are made to all users, including services to the public, trading undertakings, capital accounts, services provided to other bodies and other support services. The cost of service management is in the same way apportioned to the accounts representing the activities managed.

The bases of apportionment adopted are used consistently for all the heads to which apportionments are made.

The cost of service strategy and regulation of any service to the public are allocated to a separate objective expenditure head in the accounts of that service. The costs of the corporate and democratic core and of non-distributed costs are allocated to a separate objective expenditure head and are not apportioned to other expenditure heads.

If any overheads are not charged or apportioned, the reason for not doing so, together with the nature of the overhead and the amount, are disclosed in a note to the accounts.

12. Pension costs

Pensions Reserve

The cost of providing pensions for employees is funded in accordance with the statutory requirements governing the Local Government Pension Scheme. However, accounting for employees' pensions is in accordance with generally accepted accounting practice subject to the interpretations set out in the SORP.

Where the payments made for the year in accordance with the scheme requirements do not match the change in the Council's recognised asset or liability for the same period, the recognised cost of pensions will not match the amount required to be raised in taxation. This is represented by an appropriation to or from the pensions reserve, which equals the net change in the pensions liability recognised in the Consolidated Revenue Account.

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Defined Benefit Scheme

The Council pays contributions to the Suffolk County Council Pension Fund, which is a defined benefit scheme. The attributable assets of the pension scheme are measured at fair value at the balance sheet date. Scheme assets include current assets as well as investments. Any liabilities such as accrued expenses are deducted. The attributable scheme liabilities are measured on an actuarial basis using the projected unit method. The scheme liabilities comprise:

- i) any benefits promised under the formal terms of the scheme; and
- ii) any constructive obligations for further benefits where a public statement or past practice by the Council has created a valid expectation in the employees that such benefits will be granted.

The surplus/deficit in the scheme is the excess/shortfall of the value of the assets in the scheme over/below the present value of the scheme liabilities. An asset is recognised to the extent that the Council is able to recover a surplus either through reduced contributions in the future or through refunds from the scheme. A liability is recognised to the extent that it reflects its legal or constructive obligation.

Measurement of scheme assets

The scheme assets to be recognised include the attributable proportion of all related pension fund assets. Scheme assets include current assets as well as investments. Any liabilities such as accrued expenses are deducted.

Scheme assets are measured at their fair value. The basis for determining fair value for different classes of assets is as follows:

- (i) For quoted securities, the mid-market value is taken as the fair value. For unquoted securities, an estimate of fair value is used. The fair value of unitised securities is taken to be the average of the bid and offer prices;
- (ii) Property is valued at open market value or on another appropriate basis of valuation determined in accordance with the Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors and the Practice Statements contained therein, and
- (iii) Insurance policies that exactly match the amount and timing of some or all of the benefits payable under the scheme are measured at the same amount as the related obligations. For other insurance policies there are a number of possible valuation methods. A method is chosen which gives the best approximation to fair value given the circumstances of the scheme.

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Measurement of scheme liabilities

The scheme liabilities to be recognised include the attributable proportion of all scheme liabilities. The attributable scheme liabilities are measured on an actuarial basis using the projected unit method.

In determining the liability, benefits are attributed to periods of service according to the scheme's benefit formula, except where the benefit formula attributes a disproportionate share of the total benefits to later years of service. In such cases, the benefit is attributed on a straight-line basis over the period during which it is earned.

The assumptions underlying the valuation are mutually compatible and lead to the best estimate of the future cash flows that will arise under the scheme liabilities. The assumptions are ultimately the responsibility of the authority but are set upon advice given by an actuary and the administering authority. Any assumptions that are affected by economic conditions (financial assumptions) reflect market expectations at the balance sheet date.

Because of the long-term nature of most defined benefit schemes and the inherent uncertainties affecting them, the liabilities of the scheme are measured on an actuarial basis. This involves estimating the future cash flows arising under the scheme liabilities based on a number of actuarial assumptions such as mortality rates, employee turnover rates and salary growth, then discounting the cash flows at an appropriate rate.

Some of these assumptions are affected by the same economic factors. Actuarial assumptions are mutually compatible if they reflect the underlying economic factors consistently. To be consistent with the measurement of the assets of the scheme at fair value, they must also reflect market expectations at the balance sheet date.

For example, the rate of increase in salaries and the discount rate must reflect the same rate of general inflation. Where there is a liquid market in long-dated inflation-linked bonds, the yields on such bonds relative to those on fixed interest bonds of similar credit standing will give an indication of the expected rate of general inflation.

The actuarial assumptions reflect expected future events that will affect the cost of the benefits to which the Council is committed (either legally or through constructive obligation) at the balance sheet date.

Expected future events that will affect the cost of the benefits include:

- (i) Any expected cost of living increases either provided for in the scheme rules, publicly announced or awarded under an established practice that creates among the employees a valid expectation of receiving them;
- (ii) In the case of pensions based on final salary, any expected salary increases, and;
- (iii) Expected early retirement where the employee has that right under the scheme rules.

These events affect the measurement of benefits to which the Council is committed at the balance sheet date.

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Expected future redundancies are not reflected in the actuarial assumptions unless the Council is committed in advance (either legally or constructively) to making such redundancies. When the Council does become committed to making the redundancies, any impact on the defined benefit scheme is treated as a settlement and/or curtailment.

The scheme liabilities are discounted at a rate that reflects the time value of money and the characteristics of the liability. Such a rate should be assumed to be the current rate of return on a high quality corporate bond of equivalent currency and term to scheme liabilities.

Full actuarial valuations by a professionally qualified actuary are obtained at intervals not exceeding three years. The actuary reviews the most recent actuarial valuation at the balance sheet date and updates it to reflect the current conditions.

Recognition of defined benefit schemes

An attributable surplus gives rise to an asset of the authority to the extent that:

- (i) The authority controls its use, i.e. has the ability to use the surplus to generate future economic benefits for itself, either in the form of a reduction in future contributions or a refund from the scheme and;
- (ii) That control is a result of past events (contributions paid by the employer and investment growth in excess of rights earned by the employees);

Usually the Council's obligation in a funded scheme is to pay such contributions as the actuary believes to be necessary to keep the scheme fully funded but without building up a surplus. When a surplus arises, it is unlikely that the Councils can be required to make contributions to maintain the surplus. Thus, in general, the Councils control the use of a surplus in the scheme.

Conversely, the Council has a liability if it has a legal or constructive obligation to make good a deficit in a funded benefit scheme. In general the Council will have a legal obligation; where this is not the case the Council may, by its past actions and statements, have created a constructive obligation. The legal or constructive obligation to fund the deficit is assumed to apply to the deficit based on assumptions used under the Code, not the funding assumptions.

In determining the asset to be recognised, the amount that can be recovered through reduced contributions in the future is the present value of the liability expected to arise from future service by current and future scheme members less the present value of future employee contributions. No growth in the number of active scheme members is assumed but a declining membership would be reflected if appropriate. The amount that can be recovered is based on the assumptions used under the Code, not the funding assumptions. The present value of the reduction in future contributions is determined using the discount rate applied to measure the defined benefit liability.

Any amount to be recovered from refunds from the scheme reflects only refunds that have been agreed by the pension scheme trustees at the balance sheet date.

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The amount recoverable through reduced contributions reflects the maximum possible to be recovered without assuming an increase in the number of employees covered by the scheme. There is no restriction on the period over which the reduction in contributions can be obtained, but the effect of discounting will increasingly reduce the impact of the reductions the further into the future they are, leading to an absolute limit on the amount that can be recognised.

Any unpaid contributions to the scheme are presented in the balance sheet as a creditor due within one year.

The change in the defined benefit asset or liability is analysed into the following components:

- i) Periodic costs:
 - a) current service cost;
 - b) interest cost;
 - c) expected return on assets; and
 - d) actuarial gains and losses; and
- ii) Non-periodic costs;
 - a) past service costs; and
 - b) gains and losses on settlements and curtailments.

The current service cost is included within net cost of services. The net of the interest cost and the expected return on assets is included within Net Operating Expenditure. Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are recognised in the statement of Total Movement in Reserves for the period.

Past service costs are recognised in Net Cost of Services on a straight-line basis over the period in which the increases in benefit vest. To the extent that benefits vest immediately, the past service cost is recognised immediately.

Losses arising on a settlement or curtailment not allowed for in the actuarial assumptions are measured at the date on which the Council becomes demonstrably committed to the transaction and recognised in Net Cost of Services at that date. Gains arising on a settlement or curtailment not allowed for in the actuarial assumptions is measured at the date on which all parties whose consent is required are irrevocably committed to the transaction and recognised in Net Cost of Services at that date.

Current service cost

The current service cost is based on the most recent actuarial valuation at the beginning of the period, with the financial assumptions updated to reflect conditions at that date. The current service cost will therefore be based on the discount rate at the beginning of the period. Employee contributions during the period are set off against the current service cost.

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Interest cost and expected return on assets

The interest cost is based on the discount rate and the present value of the scheme liabilities at the beginning of the period. The interest cost, in addition, reflects changes in the scheme liabilities during the period.

The expected return on assets is based on long-term expectations at the beginning of the period and is expected to be reasonably stable. For quoted corporate or government bonds, the expected return is calculated by applying the current redemption yield at the beginning of the period to the market value of the bonds held by the scheme at the beginning of the period. For other assets (for example, equities), the expected return is calculated by applying the rate of return expected over the long term at the beginning of the period (given the value of the assets at that date) to the fair value of the assets held by the scheme at the beginning of the period. The expected return on assets should, in addition, reflect changes in the assets in the scheme during the period as a result of contributions paid into and benefits paid out of the scheme. The expected rate of return is set by the authority having taken advice from an actuary.

For quoted fixed and index-linked securities, the expected return can be observed from the market. For other assets, the expected return has to be based on assumptions about the expected long-term rate of return. The rate of return expected over the long term will vary according to market conditions, but it is expected that the amount of the return will be reasonably stable.

Actuarial gains and losses

Actuarial gains and losses may arise on both the defined benefit scheme liabilities and any scheme assets. They comprise:

- (i) On the scheme assets, differences between the expected return and the actual return (for example, a sudden change in the value of the scheme assets) and;
- (ii) On the scheme liabilities;
 - (a) differences between the actuarial assumptions underlying the scheme liabilities and actual experience during the period;
 - (b) the effect of changes in actuarial assumptions and;
 - (c) any adjustment necessary in accordance, resulting from the limit on the amount that can be recognised as an asset in the balance sheet.

Once an actuarial gain or loss has been recognised in the Statement of Total Movements in Reserves it is not recognised again in the Consolidated Revenue Account in subsequent periods.

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Past service costs

Past service costs arise when the Council makes a commitment to provide a higher level of benefit than previously promised where such a benefit did not previously exist, such as a grant of early retirement with added-on years of service. In local government such benefits tend to be granted to vest immediately. To the extent that the benefits do not vest immediately any unrecognised past service costs are deducted from the scheme liabilities and the balance sheet asset or liability adjusted accordingly.

Past service costs do not include increases in the expected cost of benefits that the Council is already statutorily, contractually or implicitly committed to, for example cost of living increases to pensions in payment and deferred pensions. Such increases are covered by the actuarial assumptions and any differences between actual experience and the assumptions or the effects of any changes in the assumptions are actuarial gains and losses.

Settlements and curtailments

Where under the scheme rules the employees have the option to retire early or transfer out of the scheme, the resulting settlements and curtailments are allowed for in the normal demographic assumptions made by the actuary and any gains and losses arising are actuarial gains and losses.

In contrast, some settlements and curtailments arise from decisions made by the Council that are not covered by actuarial assumptions, for example a reduction in employees because of the transfer or termination of an operation. Gains and losses arising from such events are part of the Council's Net Cost of Services for the period (unless they attach to one of the items shown immediately after Net Cost of Services).

An increase in the recoverable amount of a surplus arising from an increase in the active membership of the scheme is recognised within Net Operating Expenditure. An increase in the active membership can arise either from an increase in general recruitment or from the transfer of employees following a transfer of services.

A decrease in the recoverable amount of a surplus arising from a fall in the active membership is treated as an actuarial loss unless it arises from an event not covered by the assumptions underlying the amount originally regarded as recoverable, for example a settlement or curtailment. If it does arise from such an event, it should be treated as part of the loss arising on that event.

Death-in-service and incapacity benefits

A charge is made to the Net Cost of Services in the Consolidated Revenue Account to reflect the expected cost of providing any death-in-service or incapacity benefits for the period. Any difference between that expected cost and amounts actually incurred is treated as an actuarial gain or loss. Where a scheme insures the death-in-service costs, the expected cost for the accounting period is simply the premium payable for the period. Where the costs are not insured, the expected cost reflects the probability of any employees dying in the period and the benefit that would then be paid out.

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Initial recognition

Gains and losses arising on the initial recognition of pension items in accordance with this Code are dealt with as prior period adjustments.

Accounting for Pensions in the HRA

There is an inherent uncertainty in the accounting profession and with government on how FRS 17 should be applied to the HRA. Consensus has not yet been achieved over:

- a) the legislative requirements of making debits and credits to the HRA that are not designated in any general or specific provisions;
- b) whether the HRA meets the criteria for being in a "multi-employer" scheme and hence should account for retirement benefits on a defined contribution (rather than defined benefit) basis;
- c) the implications of ring-fencing the HRA for the allocation of the FRS 17 based cost components to the HRA.

Therefore, Authorities have been permitted to individually choose the methodology, which they consider to be most appropriate for the HRA. Accordingly, this Authority considers that the ring-fenced nature of the HRA and Resource Accounting in the HRA does require full allocation of all pension cost components on the grounds of proper practice. Hence the appropriate share of all pension cost components have been allocated (except actuarial gains and losses) to the HRA. A pension reserve movement entry adjusts the pension cost borne by the HRA so that there is no impact on the bottom line.

General Pension Matters

The capital cost of funding new early retirement cases is charged to revenue over a period of up to 5 years, depending on the savings payback period.

Contribution rates are determined in the long term on meeting 100% of the liabilities of the Pension Fund, in accordance with relevant Government regulations.

In respect of pension costs incurred under the Local Government Pension Scheme, additional information is disclosed in the notes to the accounts.

13. Provisions

Provisions are required for any liabilities of uncertain timing or amount that have been incurred.

Provisions are recognised when:

- a) the Council has a present obligation (legal or constructive) as a result of a past event;
- b) it is probable that a transfer of economic benefits will be required to settle the obligation; and
- c) a reliable estimate can be made of the amount of the obligation.

A transfer of economic benefits or other event is regarded as probable if the event is more likely than not to occur. If these conditions are not met, no provision is recognised.

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A provision is also recognised when the Council has a contract that is onerous i.e. the unavoidable costs of meeting the obligations under it exceed the economic benefit/service potential expected to be received under it.

The costs of internal and external restructuring should only be recognised as a provision when the local authority has a constructive obligation, i.e. there is an approved and detailed formal plan and the authority has raised a valid expectation in those affected that it will carry out the restructuring either by starting to implement the plan or by announcing its main features to those affected by it.

A restructuring provision should include only the direct expenditures arising from the restructuring, which are those that are both:

- a) necessarily entailed by the restructuring, and
- b) not associated with the ongoing activities of the entity, for example retraining or relocating continuing staff.

Provisions are not recognised for future operating losses.

Provisions are charged to the appropriate revenue account. When payments for expenditure are incurred to which the provision relates they are charged direct to the provision. The amount recognised as a provision is the best estimate taking into account the risks and uncertainties surrounding the events.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that a transfer of economic benefits will be required to settle the obligation, the provision is reversed.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised only when it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement will not exceed the amount of the provision.

In the appropriate revenue account the expense relating to a provision may be presented net of the amount recognised for a reimbursement.

14. Provisions for Bad and Doubtful Debts

Provision has been made for bad and doubtful debts in respect of Council Tax, Non Domestic Rates and Housing Rents. Known uncollectable debts have been written off.

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15. Repurchase of Borrowing

As a part of debt restructuring exercises, discounts or premiums can arise following the premature repayment of external debt. Where a premium or discount arises, this would normally be charged to the consolidated revenue account in the year in which the debt rescheduling took place. However, when the early repayment of debt is coupled with a rescheduling or refinancing with the same overall economic effect as the original debt, the discount or premium is credited or charged to the Asset Management Revenue Account over the life of the replacement loan. In cases of debt repayment when a premium has arisen, the HRA share of the premium has been carried forward on the balance sheet as a prepayment. This will be written down over subsequent years with amounts credited to the HRA in accordance with the Item 8 determination.

16. Reserves

Amounts set aside for purposes falling outside the definition of provisions are considered as reserves, and transfers to and from them are distinguished from service expenditure disclosed in the Statement of Accounts. Expenditure is not charged direct to any reserve. For each reserve established, the purpose, usage and the basis of transactions should be clearly identified. Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for purposes such as general contingencies and cash flow management.

Capital reserves are not available for revenue purposes and certain of them can only be used for specific statutory purposes. Two of these reserves are non-distributable reserves and are therefore referred to as accounts. The fixed asset restatement account and capital financing account are examples of such reserves (it should be noted that these reserves have been renamed as accounts as from 1 April 2005, there is no requirement to change the accounting treatment of these reserves). The usable capital receipts reserve is a reserve established for specific statutory purposes.

The Major Repairs Reserve is required by statutory provision to be established in relation to the HRA in England. The items to be credited to the Major Repairs Reserve are:

- (a) an amount equal to HRA depreciation for the year
- (b) transfers from the HRA required by statutory provision.

Item (a) is debited to the Capital Financing Account and item (b) is debited to the HRA appropriations account.

The amounts to be debited to the Major Repairs Reserve are:

- (a) expenditure for HRA capital purposes, where this is to be funded from the Major Repairs Reserve
- (b) repayments of principal of any amounts borrowed, or to meet any liability in respect of credit arrangements, other than any liability which, in accordance with proper practice, must be charged to a revenue account

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(c) transfers to the HRA required by statutory provision

Items (a) and (b) are credited to the Capital Financing Account and item (c) is credited to the HRA appropriations account.

17. Stocks and Long-Term Contracts

Stocks are included in the balance sheet at the total of the lower of cost and net realisable value of the separate items of stock or groups of similar items.

For trading activities, the amount recognised in the appropriate revenue account for contract work in progress, for which interim valuations are made, is the progress payments received and receivable, less related costs and any foreseeable losses, to the extent that the amount exceeds the corresponding amount recognised in previous periods.

The amount at which contract work in progress, for which interim valuations are made, is included in the balance sheet is the cost plus any attributable profit less any foreseeable losses and, where relevant, progress payments received and receivable.

18. Tangible Fixed Assets

Recognition

All expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis. Expenditure on the acquisition of a tangible asset, or expenditure which adds to, and not merely maintains, the value of an existing asset, is capitalised and classified as a tangible fixed asset, provided that it yields benefits to the Council and the services it provides are for a period of more than one year.

Expenditure that is capitalised includes expenditure on the:

- acquisition, reclamation, enhancement or laying out of land;
- acquisition, construction, preparation, enhancement or replacement of buildings and other structures;
- acquisition, installation or replacement of movable or immovable plant, machinery, apparatus, vehicles and vessels.

In this context, enhancement means the carrying out of works that are intended to:

- lengthen substantially the useful life of the asset; or
- increase substantially the open market value of the asset; or
- increase substantially the extent to which the asset can or will be used for the purposes of or in conjunction with the functions of the authority.

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Under this definition, improvement works and structural repairs are capitalised, whereas expenditure to ensure that the fixed asset maintains its previously assessed standard of performance is recognised in the revenue account as it is incurred. Expenditure on existing fixed assets is capitalised in three circumstances:

- enhancement (as defined above);
- where a component of the fixed asset that has been treated separately for depreciation purposes and depreciated over its individual useful life is replaced or restored;
- where the subsequent expenditure relates to a major inspection or overhaul of a fixed asset that restores the benefits of the asset that have been consumed by the authority and have already been reflected in depreciation.

Assets acquired on terms meeting the definition of a finance lease are capitalised and included together with a liability to pay future rentals.

Where a fixed asset is acquired for other than a cash consideration or where payment is deferred, the asset is recognised and included in the balance sheet at fair value.

Measurement

A fixed asset is initially measured at its cost.

Costs, but only those costs that are directly attributable to bringing the asset into working condition for its intended use, are included in its measurement.

Where the statutory framework for the Council adopts a policy of capitalising finance costs, finance costs that are directly attributable to the construction of fixed assets are capitalised as part of the cost of those assets. Where finance costs are capitalised, capitalisation only occurs whilst activities that are necessary to get the asset ready for use are in progress.

When substantially all the activities that are necessary to get the fixed asset ready for use are complete, fixed assets are classified into the groupings required by the Code of Practice on Local Authority Accounting as follows:

- land, operational properties and other operational assets are included in the balance sheet at the lower of net current replacement cost and net realisable value in existing use.
- non-operational assets, including investment properties and assets that are surplus to requirements, are included in the balance sheet at the lower of net current replacement cost and net realisable value. In the case of investment properties this is normally open market value. In the case of assets under construction net replacement cost will normally be historical cost and such assets should be held at historical cost until they are brought into commission.
- infrastructure assets and community assets are included in the balance sheet at historical cost, net of depreciation.

When an asset is included in the balance sheet at current value, it is formally revalued at intervals of not more than five years and the revised amount is included in the balance sheet.

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A full valuation may be performed on a rolling basis to cover all the properties over a five year cycle.

A full valuation of a property is conducted by either a qualified external valuer or a qualified internal valuer. A qualified valuer is a person conducting the valuations who holds a recognised and relevant professional qualification and having recent post-qualification experience, and sufficient knowledge of the state of the market, in the location and category of tangible fixed asset being valued.

The following valuation bases should be used to determine net current replacement cost for revalued properties other than investment properties that are not impaired:

- a) non-specialised operational properties are valued on the basis of existing use value (EUV)
- b) specialised operational properties are valued on the basis of depreciated replacement cost
- c) investment properties and properties surplus to an entity's requirement are valued on the basis of market value (MV)

Where a fixed asset is included in the balance sheet at current value, the increase over the previous carrying amount at which that asset was included in the balance sheet immediately prior to the latest (re-)valuation is credited to a fixed asset restatement account.

Where a fixed asset is acquired under a finance lease, at the inception of the lease the amount to be recorded both as an asset and as a liability should be the present value of the minimum lease payments derived by discounting them at the interest rate implicit in the lease (minimum lease payments and the interest rate implicit in the lease are defined in paragraphs 20 and 24 of SSAP 21).

Impairment

The value at which each category of assets is included in the balance sheet is reviewed at the end of each accounting period and where there is reason to believe that its value has changed materially in the period, the valuation should be adjusted accordingly. Examples of events and changes in circumstances that indicate a reduction in value may have incurred include:

- A significant decline in a fixed asset's market value during the period
- Evidence of obsolescence or physical damage to the fixed asset
- A significant adverse change in the statutory or other regulatory environment in which the authority operates
- A commitment by the authority to undertake a significant reorganisation

Where an impairment loss on a fixed asset occurs the loss is recognised, if it is caused by a clear consumption of economic benefits (e.g. physical damage or a deterioration in the quality of the service provided by the asset, i.e. if it is similar in nature to depreciation), in the asset management revenue account and the service revenue account. Other impairments (reflecting a general fall in prices) are recognised in the fixed asset restatement account. If a reversal of an impairment loss is required the accounting will mirror the original treatment applied.

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Fixed assets, other than non-depreciable land, are reviewed for impairment at the end of each reporting period when either:

- a) no depreciation charge is made on the grounds that it would be immaterial (either because of the length of the estimated remaining useful life or because the estimated residual value of the fixed asset is not materially different from the carrying amount of the asset); or
- b) the estimated remaining useful life of the fixed asset exceeds 50 years.

Disposals

Income from the disposal of fixed assets is credited to the usable capital receipts reserve, and accounted for on an accruals basis. In England only, the proportion that is required to be paid over to Central Government as a 'housing pooled capital receipt' should be charged in the Net Operating Cost Section of the Consolidated Revenue Account and the same amount appropriated from Usable Capital Receipts Reserve and credited to the Appropriations Section of the Consolidated Revenue Account.

Where a fixed asset is disposed of for other than a cash consideration, or a payment is deferred, an equivalent asset is recognised and included in the balance sheet at its fair value.

Upon disposal, the net book value of the asset disposed of is written off against the fixed asset restatement account.

Depreciation

Depreciation is provided for on all fixed assets with a finite useful life, which is determined at the time of acquisition or revaluation. For fixed assets other than non-depreciable land and non-operational investment properties, the only ground for not charging depreciation is that the depreciation charge is immaterial.

Provision for depreciation should be made by allocating the cost (or revalued amount) less estimated residual value of the assets as fairly as possible to the periods expected to benefit from their use. The depreciation methods used should be the ones that are the most appropriate to the type of asset and their use in the provision of services.

A change from one method of providing depreciation to another is permissible only on the grounds that the new method will give a fairer presentation of the results and of the financial position. Such a change does not, however, constitute a change of accounting policy; the carrying amount of the fixed asset is depreciated using the revised method over the remaining useful life, beginning in the period in which the change is made.

The useful lives of assets are estimated on a realistic basis. They are reviewed regularly and, where necessary, revised. Where the useful life of a fixed asset is revised, the carrying amount of the fixed asset is depreciated over the revised remaining useful life.

BABERGH DISTRICT COUNCIL
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STATEMENT OF ACCOUNTING POLICIES

Where the fixed asset comprises two or more major components with substantially different useful economic lives, each component is accounted for separately for depreciation purposes and depreciated over its individual useful life.

Depreciation is not normally provided for freehold land (whether operational or non-operation) or for non-operational investment properties. However, freehold land is depreciated where it is subject to depletion by, for example, the extraction of minerals. Investment properties held on a lease are depreciated over the period when the unexpired term is 20 years or less.

Depreciation is based on the amount at which the asset is included in the balance sheet, whether net current replacement cost or historical cost.

Subsequent expenditure on a fixed asset that maintains or enhances the previously assessed standard of performance of the asset does not negate the need to change depreciation.

Definable major assets or components within an infrastructure system or network with determinable finite lives are treated separately and depreciated over their useful economic lives. For the remaining tangible fixed assets within the system or network ('the infrastructure asset'), renewals accounting (as outlined in the next paragraph) may be used as a method of estimating depreciation in the following circumstances:

- the infrastructure asset is a system or network that as a whole is intended to be maintained at a specified level of service potential by the continuing replacement and refurbishment of its components, and
- the level of annual expenditure required to maintain the operating capacity (or service capability) of the infrastructure asset is calculated from an asset management plan that is certified by a person who is appropriately qualified, and
- the system or network is in a mature or steady state.

Where renewals accounting is adopted, the level of annual expenditure required to maintain the operating capacity of the infrastructure asset is treated as the depreciation charged for the period. Actual expenditure is capitalised as incurred.

Charges to Revenue

General or County Fund service revenue accounts, as defined in CIPFA's Best Value Accounting Code of Practice, central support services and statutory trading accounts are charged with a capital charge and where required, any related impairment loss (due to a clear consumption of economic benefits), for all fixed assets used in the provision of services.

Such charges are the annual provision for depreciation, where appropriate, plus a capital financing charge determined by applying a specified notional rate of interest to the net amount at which the asset is included in the balance sheet. Capital charges to the HRA should be the amounts as determined by statutory provision.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06

STATEMENT OF ACCOUNTING POLICIES

All expenditure on repairs and maintenance relating to fixed assets is charged to the appropriate service revenue account.

Finance costs, (including interest payable and interest payable under finance leases) and provisions for depreciation are charged to the asset management revenue account.

Capital charges for the use of fixed assets and relevant impairment losses included in revenue accounts are credited to the asset management revenue account.

The amounts set aside from revenue for the repayment of external loans and to finance capital expenditure are disclosed separately on the face of the consolidated revenue account, below net operating expenditure.

19. Value Added Tax

VAT is included in income and expenditure accounts, whether of a capital or revenue nature, only to the extent that it is irrecoverable.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06

AUDITOR'S OPINION

Independent auditor's report to Babergh District Council
Opinion on the financial statements

I have audited the financial statements of Babergh District Council for the year ended 31st March 2006 under the Audit Commission Act 1998, which comprise the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Babergh District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements present fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.

I review whether the statement on internal control reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I also am not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

AUDITOR'S OPINION

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of Babergh District Council as at 31st March 2006 and its income and expenditure for the year then ended.

Robert Davies, District Auditor

Audit Commission

Springvale Court,

Hadleigh Road, Sproughton,

Ipswich, Suffolk

IP8 3AS

29th September 2006

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

AUDITOR'S OPINION

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Authority is required to prepare and publish a best value performance plan summarising the Authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the Authority's best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

AUDITOR'S OPINION

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, Babergh District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

Best Value Performance Plan

I issued my statutory report on the audit of the Authority's best value performance plan for the financial year 2005/06 on 20 December 2005. I did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Robert Davies, District Auditor

Audit Commission

Springvale Court,

Hadleigh Road, Sproughton,

Ipswich, Suffolk

IP8 3AS

29th September 2006

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

GLOSSARY

ACCOUNTING POLICIES

Those principles, bases, conventions, rules and practices applied by Babergh District Council that specify how the effects of transactions and other events are to be reflected in its financial statements through:

- 1) recognising
- 2) selecting measurement bases for, and
- 3) presenting assets, liabilities, gains, losses and changes to reserves.

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or balance sheet it is to be presented.

ACCRUALS

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

ACTUARIAL GAINS AND LOSSES

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- b) the actuarial assumptions have changed.

CAPITAL CHARGE

A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

CAPITAL EXPENDITURE

Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.

CAPITAL RECEIPTS

Proceeds from the sale of a fixed asset, e.g. land or a building. Capital receipts can be used to repay the debt on assets financed from loan or to finance new capital expenditure. They cannot be used to finance revenue expenditure directly.

CLASS OF TANGIBLE FIXED ASSETS

The classes of tangible fixed assets required to be included in the accounting statements are:

Operational assets

- Council dwellings
- Other land and buildings
- Vehicles, plant, furniture and equipment
- Infrastructure assets
- Community assets

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

GLOSSARY

Non-operational assets

- Investments properties
- Assets under construction
- Surplus assets, held for disposal

Further analysis of any of these items is given if it is necessary to ensure fair presentation.

COMMUNITY ASSETS

Assets that the Council intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal, Examples of community assets are parks and historic buildings.

CONSISTENCY

The principle that the accounting treatment of like items within an accounting period and from one period to the next are the same.

CONSTRUCTIVE OBLIGATION

An obligation that derives from the Council's actions where:

- a) by an established pattern of past practice , published policies or a sufficiently specific current statement, the Council has indicated to other parties the will accept certain responsibilities, and
- b) as a result, the Council has created a valid expectation on the part of those parties that it will discharge those responsibilities.

CONTINGENT ASSET

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

CONTINGENT LIABILITY

A contingent liability is either:

- a) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control; or
- b) a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

CORPORATE AND DEMOCRATIC CORE

The corporate and democratic core comprises all activities which the Council engages in specifically because it is an elected, multi-purpose authority. The costs of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

CURRENT ASSETS

An asset where the value may change because the volume held can vary through day to day activity, e.g. cash, stock.

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

GLOSSARY

CURRENT LIABILITIES

An amount which will become payable in the next accounting period (e.g. creditors, cash overdrawn).

CURRENT SERVICE COST (PENSIONS)

The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

CURTAILMENT

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service.

Curtailments include:

- a) termination of employees' services earlier than expected, for example as a result of closing a factory or discontinuing a segment of a business, and
- b) termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

DEFERRED CHARGES

Expenditure which may properly be deferred, but which does not result in, or remain matched with, assets controlled by the Council.

DEFINED BENEFIT SCHEME

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

DEPRECIATION

The measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period.

Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, effluxion of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

DIRECT REVENUE FINANCING

A charge to the revenue account to finance capital expenditure.

DISCRETIONARY BENEFITS

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the Council's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996.

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

GLOSSARY

EMOLUMENTS

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

ESTIMATION TECHNIQUES

The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves.

Estimation techniques implement the measurement aspects of accounting policies. An accounting policy will specify the basis on which an item is to be measured; where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique.

- a) methods of depreciation, such as straight-line and reducing balance, applied in the context of a particular measurements basis, used to estimate the proportion of the economic benefits of a tangible fixed asset consumed in a period.
- b) different methods used to estimate the proportion of debts that will not be recovered, particularly where such methods consider a population as a whole rather than individual balances.

EXCEPTIONAL ITEMS

Material items which derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

EXPECTED RATE OF RETURN ON PENSION ASSETS

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

EXTRAORDINARY ITEMS

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.

FAIR VALUE

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

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FINANCE LEASE

A finance lease is one that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. It should be presumed that such a transfer of risks and rewards occurs if at the inception of a lease the present value of the minimum lease payments including any initial payment, amounts to substantially all (normally 90 per cent or more) of the fair value of the leased asset. The present value should be calculated by using the interest rate implicit in the lease. However, where the present value of the minimum lease payments does not amount to 90 per cent or more of the fair value of the leased asset, it should not automatically assumed that the lease is not a finance lease. FRS 5 requires that the substance of the transaction is reflected and therefore the lease may still need to be classified as a finance lease.

Notwithstanding the fact that the lease meets the definition above, the presumption that an asset should be classified as a finance lease may in exceptional circumstances be rebutted if it can be clearly demonstrated that the lease in question does not transfer substantially all the risks and rewards of ownership (other than legal title) to the lessee.

GOING CONCERN

The concept that the Council will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

GOVERNMENT GRANTS

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

IMPAIRMENT

A reduction in the value of a fixed asset below its carrying amount on the balance sheet.

INFRASTRUCTURE ASSETS

Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

INTEREST COST (PENSIONS)

For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

INVESTMENTS (PENSIONS FUND)

The investments of the Pensions Fund will be accounted for in the statements of that fund. However the Council is also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

GLOSSARY

INVESTMENTS (NON-PENSIONS FUNDS)

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments, other than those in relation to the pensions fund, that do not meet the above criteria should be classified as current assets.

LIQUID RESOURCES

Current asset investments that are readily disposable by the Council without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

LONG-TERM CONTRACTS

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long-term contracts if they are sufficiently material to the activity of the period.

NET BOOK VALUE

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

NET CURRENT REPLACEMENT COST

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

NET DEBT

The Council's borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference should be to net funds rather than net debt.

NET REALISABLE VALUE

The open market value of an asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

NON DISTRIBUTED COSTS

These are overheads for which no user now benefits and should not be apportioned to services.

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

GLOSSARY

NON-OPERATIONAL ASSETS

Fixed assets held by the Council but not used or consumed in the delivery of services or for the service or strategic objectives of the Council. Examples of non-operational assets include; investment properties and assets that are surplus to requirements, pending their sale. It should be noted that the incidence of rental income does not necessarily mean that the asset is an investment property. It would be deemed an investment property only if the asset is held solely for investment purposes and does not support the service or strategic objectives of the Council and the rental income is negotiated at arms length.

OPERATING LEASE

A lease other than a finance lease.

OPERATIONAL ASSETS

Fixed assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility or for the service or strategic objectives of the Council.

PAST SERVICE COST

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

EVENTS AFTER THE BALANCE SHEET DATE

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

PRIOR PERIOD ADJUSTMENTS

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is the one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

PROJECTED UNIT METHOD

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and
- b) the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06

GLOSSARY

PRUDENCE

The concept that revenue is not anticipated but is recognised only when realised in the form either of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

PUBLIC WORKS LOAN BOARD (P.W.L.B.)

A government agency which provides long term loans to local authorities at interest rates only slightly higher than those at which the government itself can borrow. Local authorities are able to borrow a proportion of their requirements to finance capital expenditure from this source, the rates of interest being generally lower than "market" rates.

RATEABLE VALUE

A value placed on all properties subject to rating (Business properties only). The value is the annual assumed rental (determined by the Inland Revenue), calculated by deducting from the assessed gross annual rent an amount representing the cost of repairing, maintaining and insuring the property.

RELATED PARTIES

Two or more parties are related parties when at any time during the financial period:

- i) one party has direct or indirect control of the other party; or
- ii) the parties are subject to common control from the same source; or
- iii) one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- iv) the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Examples of related parties of the Council include:

- i) central government;
- ii) local authorities and other bodies precepting or levying demands on Council Tax;
- iii) its subsidiary and associated companies;
- iv) its joint ventures and joint venture partners;
- v) its members;
- vi) its chief officers; and
- vii) its pension fund.

Examples of related parties of a pension fund include its:

- i) administering authority and its related parties;
- ii) scheduled bodies and their related parties; and
- iii) trustees and advisors.

These lists are not intended to be comprehensive.

For individuals identified as related parties, the following are also presumed to be related parties:

- i) members of the close family, or the same household; and
- ii) partnerships, companies, trusts or other entities in which the individual, or a member of their close family or the same household, has a controlling interest.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06

GLOSSARY

RELATED PARTY TRANSACTION

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. Examples of related party transactions include:

- i) the purchase, sale, lease, rental or hire of assets between related parties;
- ii) the provision by a pension fund to a related party of assets of loans, irrespective of any direct economic benefit to the pension fund;
- iii) the provision of a guarantee to a third party in relation to a liability or obligation of a related party;
- iv) the provision of services to a related party, including the provision of pension fund administration services;
- v) transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, rents and payments of benefits.

This list is not intended to be comprehensive.

The materiality of related party transactions should be judged not only in terms of their significance to the Council, but also in relation to its related party.

RESIDUAL VALUE

The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

RETIREMENT BENEFITS

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either (i) an employer's decision to terminate an employee's employment before the normal retirement date or (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because they are not given in exchange for services rendered by employees.

REVENUE EXPENDITURE

The day-to-day costs the Council incurs in providing services; the Council's revenue expenditure covers employee expenses, running expenses and capital financing costs.

SCHEME LIABILITIES

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

SETTLEMENT

An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- (i) a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits
- (ii) the purchase of an irrevocable annuity contract sufficient to cover vested benefits, and
- (iii) the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2005/06**

GLOSSARY

STOCKS

The amount of unused or unconsumed stocks held in expectation of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises. Stocks comprise the following categories:

- (a) goods or other assets purchased for resale;
- (b) consumable stores;
- (c) raw materials and components purchased for incorporation into products for sale;
- (d) products and services in intermediate stages of completion;
- (e) long term contract balances, and
- (f) finished goods.

TANGIBLE FIXED ASSETS

Tangible assets that yield benefits to the council and the services it provides for a period of more than one year.

TOTAL COST

The total cost of a service or activity includes all costs which relate to the provision of the service (directly or brought in) or to the undertaking of the activity. Gross total cost includes employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and capital charges. This includes an appropriate share of all support services and overheads, which need to be apportioned.

USEFUL LIFE

The period over which the Council will derive benefits from the use of a fixed asset.

VESTED RIGHTS

In relation to a defined benefit scheme, these are:

- (a) for active members, benefits to which they would unconditionally be entitled on leaving the scheme;
- (b) for deferred pensioners, their preserved benefits;
- (c) for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses or other dependants.